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THE IMPACT OF PUBLIC POLICIES ON INCOME DISTRIBUTION IN PENINSULAR MALAYSIA*

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I. INTRODUCTION

During the last several years, there has been a definite shift of interest in concern for economic development from economic growth to income distribution, poverty and the impact of government activities on the size distribution of income in developing countries. This shift of interest is largely attributable to the cumulating evidence that economic growth in developing countries has not been accompanied by the narrowing of income inequality. On the contrary, in many developing countries, impressive growth performance have been accompanied by growing income inequality. There is also growing evidence that economic development in the developing countries has been very uneven and of little benefit to the bulk of the poor in these countries.

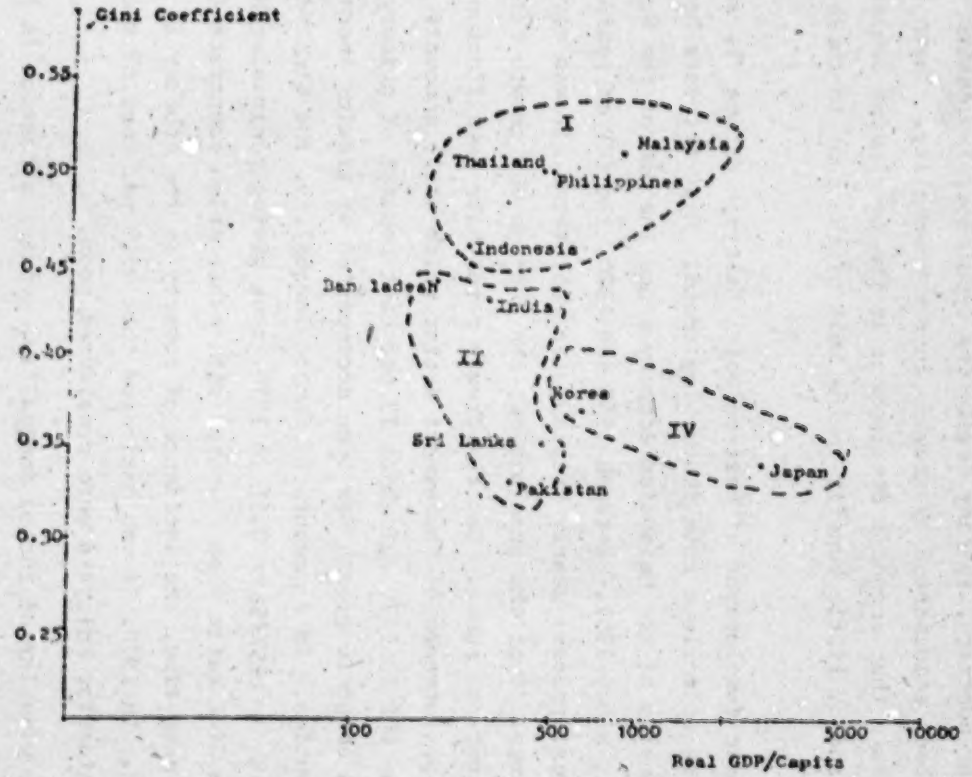
The economic development of post-colonial Malaysia during the last three decades seems to reflect this disturbing trend. Many accounts have shown satisfactory expansion of the Malaysian economy since the end of the World War II, especially since 1957. Between 1947 and 1970, the GDP of peninsular Malaysia (at current prices) nearly tripled; in real terms, it was more than one and a half times. Over the same period, the average GDP growth rate has been over 4 per cent per annum. But the growth rates have been fluctuating, depending on the performance of the export sector which still accounts for 44 per cent of the GDP in 1970 (of which 73 per cent consist of primary products). This rather rapid economic growth has been accompanied by growing inequality in income distribution. As a measure of income inequality, the Gini ratio increased from 0.47 in 1957/58 to 0.51 in 1970, thus giving peninsular Malaysia a relatively high Gini ratio when compared with other Asian countries (see Fig. 1). At the same time, the incidence of poverty in the country is also disturbingly high. In 1970, it was estimated that 49.3 per cent of the total households in peninsular Malaysia were considered poor.[1/]

With this widening of income inequality, greater attention is being given to public policies, especially those designed to rectify the unequal distribution of income. This paper will attempt to analyse the impact of various government policies (both budgetary and non-budgetary) on the size distribution of income in peninsular Malaysia. It must be emphasised at the outset that the paper has serious limitations. Firstly, the analysis will be confined to peninsular Malaysia only due to lack of information on the income

/Figure 1.

1/ The Third Malaysia Plan, 1976-1980, Government Press, 1976, pp. 72-73.

Figure 1 . Gini Coefficient of Income Inequality and Real Per Capita GDP (c.1970)



Source: T. Onchon & L. Paulino, Income Distribution and Employment in Developing Countries: Review of Past Decades, Staff Paper No. 22, Kasetsort University, Jan. 1977.

/distribution

distribution situation in Sabah and Sarawak. Secondly, although we had hoped to cover all the public policies which have direct and indirect impacts on the size distribution of income in peninsular Malaysia, due to the limited time available, only the impact of major public policies has been considered. Finally, since the area covered is very broad, the paper relies very heavily on other existing works on the subject. Nevertheless, this paper tries to provide a general picture of the impact of public policies on income distribution in peninsular Malaysia.

II. TRENDS AND PATTERNS OF INCOME INEQUALITY, 1957-1973

Before discussing the impact of government policies on income distribution, it is worthwhile to look at the trend of income inequality in greater detail. Table 2 gives a general picture of development of income inequality over time in peninsular Malaysia. Income data has been obtained from various surveys conducted by the Statistics Department of Malaysia, viz. the Household Budget Survey (HBS) 1957/58, the S.R.M. Ford Social Economic Survey of 1967/68, the Post-Enumeration Survey (PES) 1970 and the Household Expenditure Survey, 1973. It must be pointed out that these surveys were not primarily income distribution surveys. The income distribution data that were generated were by-products of surveys intended for other purposes. It must also be stressed that the income data are not strictly comparable because of the different sources and designs, differing coverage, concepts used, response error, etc. However, despite these shortcomings, the data can still provide us with some useful insights into the problem, especially when there is no better alternative. But, the conclusions derived should be considered as tentative.

Comparing the data in table 1, the income inequality situation in peninsular Malaysia, as measured by the Gini Ratio (GR) and the Theil Index (TI), seems to have worsened since 1957, though it appears to have improved after 1970. The GR is estimated to be 0.41 in 1957/58, 0.44 in 1967/68 and 0.51 in 1970. Between 1970 and 1973, the income inequality situation appears to have improved with the GR declining to 0.48. However, as Snodgrass[2/] has pointed out, it is important not to exaggerate the significance of this finding. The shortness of the period between 1970 and 1973 suggests that short-term fluctuations may have greater influence relative to long-term trends than they did in the 1957-1970 comparison. Moreover, there is some evidence that incomes were under-reported in the HES 1973.[3/]

/Table 1.

2/ D.R. Snodgrass (1978) Inequality and Economic Development in Malaysia, revised draft, March, pp. 4-25.

3/ Ibid, pp. 4-22.

Table 1. Summary of Size Distribution Estimates According to Area, Peninsular Malaysia

	Overall				Urban				Rural			
	1957/8	1967/8	1970	1973	1957/8	1967/8	1970	1973	1957/8	1967/8	1970	1973
Income share of:												
Top 5%	22.1	23.6	28.1	26.4	20.7	•	27.5	•	19.0	•	23.9	•
Top 20%	48.6	51.3	55.9	53.7	49.6	•	55.0	•	44.5	•	51.0	•
Middle 40%	35.5	34.4	32.5	34.0	33.2	•	32.8	•	37.3	•	35.9	•
Bottom 40%	15.9	14.3	11.6	12.3	17.2	•	12.2	•	18.2	•	13.1	•
Mean Income ($)	205	240	264	324	307	360	407	482	172	185	201	282
% distribution of households	-	-	-	-	24.6	•	30.8	•	75.4	•	69.2	•
% distribution of income	-	-	-	-	36.9	•	47.4	•	63.1	•	52.6	•
Gini Ratio	0.41	.44	0.51	0.48	.42	.45	0.50	.46	0.38	.40	0.46	.46
Theil Index	0.29	•	0.48	0.43	0.30	•	0.45		0.25	•	0.40	

• Not available

Sources:
1. Ishak Shari & Ragayah M.Z (1978) "Some Aspects of Income Inequality in Peninsular Malaysia, 1957-70, in Oshima, H.T. & Mizoguchi T. (eds.), Income Distribution by Sectors and Overtime in East & Southeast Asian Countries, CAMS, Manila, Jan. p.233;
2. Ishak Shari & Ragayah M.Z (1978a) Income Distribution Among the Malays: An Assessment, background paper (in Malay) presented at Bumiputra Economic Convention, Mac, Bangi;
3. Snodgrass D.R. (1978) Inequality and Economic Development in Malaysia, Revised Draft, Mac. p.4-28.

/Changes

Changes in the income inequality situation from 1957 to 1973 can also be obtained from analysis of changes of the income shares going to the various income groups during the period. The growing income inequality from 1957 to 1970 is shown by the fact that the income share of the top 20 per cent of the households increased from 48.7 per cent of the total in 1957/58 to 50.7 per cent in 1967 and to 56.1 per cent in 1970. In contrast, the income share of the remaining households was less in 1970 than in 1957. The income share of the middle 40 per cent the households declined from 35.7 per cent in 1957 to 34.8 per cent in 1967/68 and 32.7 per cent in 1970. The decline of the income share for the lowest 40 per cent of the households was even sharper. Its income share declined from 15.9 per cent in 1957 to 14.5 per cent in 1967 and 11.2 per cent in 1970.

The apparent improvement in the distribution of income in 1973 is also reflected in changes in income shares received by various income groups from 1970 to 1973. During this period, the income share of the top 20 per cent of the households declined from 55.4 per cent in 1970 to 53.7 per cent in 1973 and the rest of the households increased their shares of total income. Specifically, the middle 40 per cent of the households increased their share from 32.5 per cent to 34.0 per cent and the lowest 40 per cent increased their share from 11.6 per cent to 12.3 per cent.

Table 1 also shows the pattern of changes in income inequality in rural and urban areas of peninsular Malaysia over the same period. For all the years mentioned, income disparities appear to be greater in urban areas than in rural areas. However, the difference in 1973 were very marginal. The changes in income inequality in both areas over time appear to follow the overall trend. Between 1957 and 1970, income inequality in both areas worsened but between 1970 and 1973, there was a slight improvement. However, the rise of income inequality in rural areas appear to be greater than the urban areas.

Table 2 shows the extent of income inequality and its changes over time for each of the major ethnic groups in peninsular Malaysia. This dimension is included because the problem of inter-racial economic differences in peninsular Malaysia has its own particular characteristics and implications. As a result of colonial rule, three major ethnic groups in peninsular Malaysia (i.e. the Malays, the Chinese and the Indians) differ sharply with respect to ownerships of assets and employment patterns. The inter-racial income differences are normally measured by comparing the mean incomes of the various

/Table 2.

Table 2. Summary of Size Distribution Estimates According to Ethnic Groups, Peninsular Malaysia

	MALAY HOUSEHOLDS				CHINESE HOUSEHOLDS				INDIAN HOUSEHOLDS			
	1957/8	1967/8	1970	1973	1957/8	1967/8	1970	1973	1957/8	1967/8	1970	1973
Income Share of												
Top 5%	18.1	22.2	23.8	22.7	19.4	19.9	25.4	18.8	19.2	22.3	28.4	25.6
Top 20%	42.5	48.2	51.3	50.8	43.6	46.7	52.3	48.6	46.0	48.1	53.6	51.3
Middle 40%	37.9		35.7	35.5	36.6	36.3	33.5	35.5	35.2	35.6	31.5	33.7
Bottom 40%	19.6	17.0	13.0	13.7	19.8	17.0	14.2	15.9	18.1	16.3	14.9	15.0
Mean Income: ($)	140	163	173	222	302	349	381	444	243	260	301	365
% distribution of households[1]	55.5	•	53.3	55.8	33.0	•	33.8	33.3	11.5	•	12.0	10.2
% distribution of income[1]	37.7	•	34.9	38.2	48.6	•	48.8	45.7	13.6	•	13.6	11.5
Gini Ratio	.34	.40	.46	.45	.38	.39	.46	.42	.37	.40	.47	.44
Thiel Index	.21	.•	.40	.36	.25	•	.39	.31	.23	•	.39	.35

[1] Total does not add up to 100% because we have left out "others".

• Not available.

Sources: 1. Ishak Shari & Ragayah M.Z; (1978), op.cit. p.241

2. Ishak Shari & Ragayah M.Z; (1978a), op.cit.

3. Snodgrass, D.R. (1978), op.cit. pg. 4-35

/ethnic

ethnic groups. There appears to be general agreement that the income of the average non-Malay households has consistently been a bit more than twice that of the average Malay households (see table 3). This disparity has changed little over the years.

While there exist inter-racial differences, the data in table 2 shows that income disparities also exist within each ethnic group during the 1957-1970 period, intra-group inequality has risen for each ethnic group. The increase in income inequality seems to be most serious among the Malays, followed by the Indian and the Chinese. There was apparent change in the relative position occupied by each ethnic group in terms of income inequality. In 1957/58, intra-group inequality was highest for the Chinese and lowest for the Malays, but by 1973 this ranking was reversed.

However, since 1957, the Malaysian government has been preoccupied with observed differentials in income, wealth and employment as between Malays and non-Malays in the country and has pursued various policies aimed at reducing such differentials. Prior to 1970, no specific distributional targets were set and government policies for reducing inter-racial differentials were geared towards the provision of public subsidies and support for Malay enterprises or Malay agricultural pursuits. After 1970, some specific inter-racial redistributional targets were set. (It was at this time too that the government announced its commitment to redress poverty irrespective of ethnic group. This is probably the first and most explicit pronouncement of a non-racial approach to reduce income inequality). The preoccupation of government with the inter-racial aspect of income redistribution has serious implications on the changes in the distribution of income over time and this will be discussed in greater detail later in the paper.

III. PATTERNS OF WEALTH OWNERSHIP

Since inequality in asset ownership is an important factor explaining income inequality, it is therefore useful to briefly look at the pattern of wealth ownership in peninsular Malaysia. Although relevant statistics relating to the ownership and control of wealth are sparse, the broad facts are obvious and clear enough. Wealth in peninsular Malaysia is held very unequally. Tables 4 and 5 show the pattern of ownership of assets in modern agriculture/industry and share capital of limited companies in peninsular Malaysia respectively. These two tables highlight one fundamental fact about the Malaysian economy in 1970, i.e. the dominance of foreign capital in the modern agricultural, industrial and commercial sectors.

/Table 3.

Table 3. Disparity Ratios* between ethnic groups 1957-73

Year/Source	Non-Malays/ Malays	Chinese/ Malays	Indian/ Malays	Chinese/ Indians
H.B.S 1957/8	2.21	2.16	1.74	1.24
S.R.M Ford 1967/68	2.01	2.14	1.50	1.34
P.E.S 1970	2.18	2.20	1.36	1.27
H.E.S 1973	2.05	2.00	1.64	1.22

* refer to the ratios of the mean household income of one ethnic group against another.

Source: Computed from table 2 and the original tables from the work cited.

/Table 4.

TABLE 4.

OWNERSHIP OF ASSETS IN MODERN AGRICULTURE AND INDUSTRY, PENINSULAR MALAYSIA, 1970

Ownership	Modern Agriculture[1] (planted acreage)				Industry[2] (fixed assets)			
	Corporate Sector		Non-corporate Sector		Corporate Sector		Non-corporate Sector	
	('000 acres)	(%)	('000 acres)	(%)	$ (million)	(%)	$ (million)	(%)
Malaysians	515.0	29.2	697.6	94.1	559.7	42.8	167.2	97.6
Malay	5.0	0.3	349.3	47.1	11.2	0.9	3.9	2.3
Chinese	457.0	25.9	243.3	32.8	342.3	26.2	158.0	92.2
Indian	4.9	0.3	74.8	10.1	1.5	0.1	3.9	2.3
Other	48.1	2.7	13.2	1.8	187.2	14.3	1.4	0.8
Government[3]	-	-	17.0	2.3	17.5	1.3	-	-
Non-Malaysians	1,249.6	70.8	44.0	5.9	747.3	57.2	4.1	2.4
Total	1,764.6	100.0	741.6	100.0	1,307.0	100.0	171.3	100.0
% of Total		70.4		29.6		87.4		12.6

1 Modern agriculture covers estate acreage under rubber, oil palm, coconut and tea. FELDA is included in this category -- under the non-corporate sector. Ownership is in terms of total planted acreage.

2 The industry sector covers manufacturing, construction and mining. Ownership is in terms of fixed assets. Total excludes unallocatable assets amounting to $25.2 million.

3 Government ownership of 17,000 acres in modern agriculture is included in the non-corporate sector, while its ownership of $17.5 million of fixed assets in industry is included in the corporate sector.

Source: Mid-Term Review of the Second Malaysia Plan, (Kuala Lumpur: Government Printers)(MTR), 1973, Table 1-4, p.12.

/Table 5.

TABLE 5

OWNERSHIP OF SHARE CAPITAL OF LIMITED COMPANIES, BY RACE AND SECTOR, PENINSULAR MALAYSIA, 1970

	Malay		Chinese		Indian		Foreign		Total[1]
	($000)	(%)	($000)	(%)	($000)	(%)	($000)	(%)	($000)
Agriculture, forestry and fisheries	13,724	0.9	177,438	22.4	16,191	0.1	1,079,714	75.3	1,432,400
Mining and quarrying	3,876	0.7	91,557	16.8	2,488	0.4	393,910	72.4	543.497
Manufacturing	33,650	2.5	296,363	22.0	8,880	0.7	804,282	59.6	1,348,245
Construction	1,258	2.2	30,855	52.8	447	0.8	19,937	24.1	58.419
Transport and communications	10,875	12.3	35,498	43.4	1,903	2.3	9,845	12.0	81,887
Commerce	4,715	0.8	184,461	30.4	4,711	0.7	384,549	63.5	605,164
Banking and insurance	21,164	3.3	155,581	24.3	4,434	0.6	332,790	52.2	636,850
Others	13,349	2.3	220,330	37.8	13,348	2.3	182,862	31.4	582,515
Total	102,611	1.9	1,192,083	22.5	52,402	1.0	3,207,889	60.7	5,288,978

1 The total includes share capital ownership by Federal and State Governments and Statutory Bodies and other Malaysian residents (individuals and Nominee and locally controlled companies), amounting to about $734 million. In this Table, the racial shares in each sector exclude these two groups.

Source: Ibid., Table 4-7, p. 83.

/Furthermore,

Furthermore, three recent studies[4/] on the concentration of wealth in large companies give interesting insights on the extent of inequality in wealth ownership in the country. In their study of 34 large corporations in Malaysia, M.H. Lim and M. Anderson found that "ownership of stocks in these firms is highly concentrated in the hands of a small number of investors ..... the largest 25 shareholders own more than 51 per cent of the ordinary stock".[5/] They also pointed out that "despite the large number of shareholders in all companies, the majority of shares is still concentrated in the hands of the top 25 investors".[6/] Sieh Mei Ling, who conducted a study of the official shareholders list of the 98 largest Malaysian incorporated companies engaged in manufacturing in 1974/75, also found an extremely high degree of concentration of equity capital in a small number of large holding with an overall Gini ratio of 0.91. Her study also showed that 1 per cent of the over 100,000 shareholdings accounted for almost 80 per cent of the total shareholdings. In another interesting study on the pattern of ownership and control of the largest corporations in Malaysia, Tan Tat Wai concluded that there is a "great concentration of the wealth and resources of the leading companies in the country in the hands of a very few ..... (and) ..... no more than a few scores of family share in the fruit of this!" [7/]

/IV.

4/ The three studies are:

Lim Mah Hui & Mary Anderson (1976), Concentration of Wealth & Power in the Top Corporations in Malaysia, paper presented at Third Economic Convention, Malaysian Economic Association, Penang.

Sieh Mei Ling (1977), "Size Distribution of Shareholdings in Manufacturing: Case of Malaysia, 1974/75", paper presented at Fourth Economic Convention, Malaysian Economic Association, Kuala Lumpur, Mei.

Tan Tat-Wai (1977), Income Distribution & Derermination in West Malaysia, Ph.D Dissertation, Harvard University.

5/ Lim Mah Hui & Mary Anderson (1976) op. cit.

6/ Ibid.

7/ Tan Tat Wai, op. cit., p. 281.

IV. THE DEVELOPMENT OF THE PUBLIC SECTOR

The above discussion suggests that inequality in income and wealth distribution is a major problem in peninsular Malaysia. In recent years, the government has become increasingly aware of the problem and has been trying to use some policy measures to redress it. This is reflected in the development of the public sector since 1957. At present, Malaysia has one of the largest public sectors among all developing countries. But, as shown in table 6, this is a recent development. During the post-colonial period 1957-1960, the pattern of government expenditure appeared to reflect the traditional conservative notion of limited government intervention in the running of the economy. Major economic activities have been left to the private sector and the government role has been confined to providing the necessary infrastructure for the expansion of the economy. But since 1960, the public sectors command of economic resources has been increasing very rapidly. Federal government expenditure and lending has been increased from about 16.2 per cent of the GNP in 1957 to 32.3 per cent in 1975. During the same period, Federal tax revenue increased from 13.5 per cent to 21.0 per cent of the GNP. In their study of 52 developing countries, Lotz and Moss rank Malaysia fourth in terms of tax revenue as a share of GNP.[8/]

The question which has often been raised is: have public sector programmes reduced economic inequality in the country? The remaining sections of the paper discuss the impact of various government policies on the distribution of income and wealth in peninsular Malaysia.

V. FISCAL POLICY AND INCOME REDISTRIBUTION

There are a number of studies[9/] on the incidence of taxes and/or expenditure in peninsular Malaysia. Although these studies differ in coverage, purposes, and period of analysis, they can be pooled together to

/Table 6.

8/ G.R. Lotz and E.R. Moss (1967), "Measuring tax effort in developing countries", IMF Staff Papers, November.

9/ The studies include: Lai Ah Hoon (1968), Problems of Federal Finance in Plural Societies: Case Studies of Malaya and Singapore, Ph.D. dissertation, University of York; Charles McLure (1972), "The incidence of taxation in West Malaysia", Malayan Economic Review, 17 no. 2 (October), pp. 66-98; Donald R. Snodgrass (1975), "The fiscal system as an income redistributor in West Malaysia" in David Lim (ed.), Readings on Malaysian Economic Development, Oxford University Press, Kuala Lumpur, 1975; Donald R. Snodgrass (1978), op. cit.; Fuat Andic (1977), "Poverty and tax incidence in West Malaysia", Public Finance Quarterly, 5, no. 3, July; Jacob Meerman (1977), "Meeting basic needs in Malaysia: a summary of findings", mimeo., World Bank; Jacob Meerman (1977a), The Distribution of Public Expenditure in Malaysia, m.s.; and Ismail Muhamad Salleh (1977), "Tax incidence and income redistribution in West Malaysia", Ph.D. dissertation, University of Illinois.

Table 6. Ratio of Federal Revenu & Expenditure to Gross National Product, Malaysia, 1957-75

Year	Total Revenue	Total Tax Revenue (TTR)	Total Expenditure (TE)	Budget Surplus(+)/ Deficit(-)	GNP	TRP/GNP (in per cent)	TE/GNP (in per cent)
1957	801	665	800	1	4942	13.46	16.19
1958	762	600	933	- 171	4750	12.63	19.64
1959	891	722	916	- 25	5306	13.61	17.26
1960	1069	883	937	+ 132	5626	15.71	16.65
1961	1081	877	1111	- 30	5646	15.49	19.68
1962	1097	880	1315	- 218	6000	14.67	21.92
1963	1150	914	1485	- 335	6362	14.37	23.34
1964	1458	1048	1882	- 434	7822	13.40	24.06
1965	1580	1208	2117	- 537	8593	14.06	24.63
1966	1669	1343	2263	- 694	9177	14.63	24.66
1967	1842	1472	2418	- 576	9652	15.25	25.05
1968	1893	1536	2407	- 506	10,071	15.25	23.90
1969	2093	1730	2531	- 438	10,938	15.76	23.06
1970	2400	2000	2875	- 475	12,155	16.45	23.65
1971	2418	2081	3468	- 1050	12,501	16.65	27.74
1972	2920	2394	4291	- 1371	13,641	17.55	31.46
1973	3398	3045	4447	- 1049	17,443	17.46	25.49
1974	4788	4311	6169	- 1381	21,234	20.30	29.05
1975	5117	4576	7013	- 1896	21,747	21.04	32.25

Note: Data for 1957-63 is for P. Malaysia only.

Sources: 1) The Economic Report, 1978-79. Ministry of Finance, Kuala Lumpur, 1977.
2) Quarterly Economic Bulletin, Bank Negara, vol. 5. No. 3, Sept. 1972, Kuala Lumpur.
3) Lee Soo Ann, (1974), Economic Growth & the Public Sector in Malaysia & Singapore 1948-60, Oxford University Press, Singapore.

/provide

provide a general picture of the impact of government fiscal policy on the size distrib tion of income in peninsular Malaysia. We will first summarise the findings of some of these studies with regard to the impact of taxes, the impact of government expenditure and finally the over-all redistributive impact of both sides of the budget taken together. It must be stressed, however, that the conclusions derived should be considered tentative since the various studies differ in coverage, distributed categories, period of analysis and methodology.

A. TAX INCIDENCE

McLure's study examined the incidence of the tax system[10/] on various income groups in peninsular Malaysia for the year 1957/58. It covered only Federal government taxes and Employees Provident Fund (EPF) contributions.[11/] His major finding was that tax incidence by income size groups in 1957/58 was U-shaped i.e. there was regressivity in the lower income levels and progressivity towards the top of the income range. He estimated that the tax incidence in that year was 20 per cent for the lowest income group, 15-18 per cent for the middle-income group and 26 per cent for the highest income group (see table 7). This pattern was attributed mainly to the importance of export duties on rubber and tin as revenue sources. While both contributed to progressivity at the top of the income range, the rubber duty, through its effect on the small holders, helped to make the tax structure regressive at the bottom end of the income groups. McLure also speculated that the regressivity of the tax structure would probably be ironed out and its progressivity increased.

The Snodgrass studies, which analyse and compare the role of the fiscal system[12/] as an income redistributor in peninsular Malaysia for the years 1958 and 1968, supported McLure's 1957/58 findings. He estimated that the tax incidence in 1957/58 was 22 per cent of adjusted income in the lowest group, 14-17 per cent in the middle group and 27 per cent in the highest group. The studies, however, challenge McLure's prediction; they

/Table 7.

10/ See appendix I for sources of tax revenue in peninsular Malaysia, 1960-1973.

11/ The public sector in peninsular Malaysia consists of the Federal Government, State Governments and the Public Authorities. The area of coverage constitutes about 80-85 per cent of the total fiscal system.

12/ Snodgrass and Ismail studies cover only the Federal government and EPF contributions.

Table 7. Comparison of Effective Tax Rates Under Different Studies

	Annual Income Range ($ Mil.)				
	Below 1800	1800-6000	6000-12000	Above 12000	Total
McLure C.E. 1957-8					
Taxes ($ Mil.)	143.9	314.1	75.0	160.8	693.8
Household Income($ mil.)	722.2	1767.3	511.5	610.4	3611.4
Effective Tax Rates	19.93	17.77	14.66	26.34	19.21
Snodgrass D.R. 1968					
Taxes ($ Mil.)	281.8	572.7	169.4	429.8	1453.6
Household Income($ Mil.)	903.2	2245.9	739.7	846.1	4734.9
Effective Tax Rates	31.2	25.5	22.9	50.8	30.7
Ismail Muhd Salleh 1973					
Taxes ($ Mil.)	330.8	963.6	449.8	858.8	2603.2
Household Income($ Mil.)	696.4	3140.3	1557.8	2147.5	7542.0
Effective Tax Rates	47.58	30.66	28.87	39.99	34.52

Sources. McLure, C.E., Jr. "The Incidence of Taxation in West Malaysia." Malayan Economic Review, Oct. 1972.

Snodgrass, D.R. "Fiscal System as Income Re-distributor". Public Finance, Jan. 1974.

Quoted from Ismail Muhd. Salleh, op.cit. p.203

/show

show that tax incidence by income size group continued to be U-shaped in 1968 (see table 7). Snodgrass attributed the continuing regressivity at the lower end of the income scale to the large increase in revenue from import duties and excise taxes. The incidence of these increases fell heavily on the two lowest income groups.

Andic's study is based on the PES 1970 and consumption data from the HES 1973. It produced different results from the two above-mentioned works. He concludes that the tax system in peninsular Malaysia is highly progressive. According to his estimates, the poor households, defined as those receiving not more than $150 per month (or $1,800 per annum), received 10 per cent of total income in 1970 but only paid 3-4 per cent of federal taxes. This estimate is very much lower than those found by other studies. But, as Snodgrass has pointed out, these differences are largely due to the different coverage in Andic's work as compared with other studies. Firstly, Andic's study cover both Federal and State taxes but excludes EPF which is usually considered a form of taxation. Secondly, when comparing Andic's list of taxes paid by poor households in 1970 with those of the two earlier studies, Snodgrass found that Andic allocated a much smaller proportion of export duty, import duty and excise tax revenues to poor households while also assuming that income taxes do not affect them at all. It is felt that the over-all effect of these differences would be over-statement of the degree of progressivity of the Malaysia tax system.

The findings of Ismail's study on tax incidence in peninsular Malaysia for the years 1968, 1970 and 1973 also contradict Andic's contention and tend to support the conclusions of Snodgrass studies. Table 6, derived from Ismail's study, shows the differences in the pattern of tax burden distribution in peninsular Malaysia for the years 1968, 1970 and 1973. While it must be admitted that there are problems in making inter-temporal comparison 13/ such comparisons are useful in providing some idea of the extent to which tax policy has achieved redistribution.

/From

13/ Ismail listed two of them viz., (a) changes in the patterns of the effective tax rates over time could result from other budgetary measures and other factors which may be difficult to isolate, and (b) the underlying distribution of income were obtained from different sources and hence difference in the definition and coverage of income.

From table 8, we find that the average effective tax rate (i.e. tax to income ratio) for all taxes in peninsular Malaysia has been increasing over the years: 29.75 per cent in 1968, 32.3 per cent in 1970 and 37 per cent in 1973. This means that an increasing fraction of household income is being absorbed by government via taxation. This increase in the effective values reflects both the upward adjustments of the tax structure and the imposition of new taxes over the period.

What is more interesting from table 8 is the fact that the effective tax rates for the over-all tax structure for the three years exhibit a U-shaped pattern. For 1968, the over-all effective tax rate schedule appears to be regressive only when moving from the first to the second income bracket; it becomes smoothly progressive thereafter. However, the over-all effective tax rates for 1970 and 1973 both show regressivity over a large segment at the lower end of the income scale with progressivity appearing at the upper end of the income scale. Ismail also points out that through these three periods, the tax burden in peninsular Malaysia "continued to be distributed much more regressively than commonly believed. Particularly for those households in the lower income brackets, taxation continued to absorb a greater fraction of their income, while the burden borne by the higher income groups continued to decline over these three periods."[14/] Ismail attributed these regressive trends at the lower end of the income scale primarily to the burdens imposed by export duties and indirect taxes. The progressivity at upper income levels is due to the burden of tin export duty and the mildly progressive structure of personal income taxation.

When looking at the patterns of effective tax rates of the major groups of taxes in table 8, Ismail also finds that:

(a) the effective tax rates of the total direct taxes for the three periods exhibit a similar U-shaped pattern.

(b) the effective tax rate for total export duty for all periods shows slight regressivity at the lowest end of the income scale and then became more or less proportional over most of the middle income ranges and turn progressive at the upper end of the income scale. In 1970, the effective tax rate for

/Table 8.

14/ Ismail Muhd. Salleh (1977), op. cit., p. 199.

Table 8. Estimated Distribution of Tax Burdens by Income Groups: West Malaysia, 1968, 1970, 1973
(Taxes as a Percent of Household Income Under Benchmark Assumptions)

Taxes	Annual Income Range M. ($)										
	Below 1200	1200-1800	1800-2400	2400-3600	3600-4800	4800-6000	6000-7200	7200-8400	8400-12000	Above 12000	Total
I. Direct Taxes:											
1. Individual Income Tax											
1968				0.12		0.32			1.74	11.5[illegible]	2.25
1970				0.06	0.40	0.70	1.00	1.33	2.27	9.1[illegible]	2.5[illegible]
1973				0.07	0.17	0.53	1.01	1.19	1.97	8.38	2.71
2. Corporation Income Tax:											
1968	3.58	1.50		2.31		3.01			4.45	9.00	3.8[illegible]
1970	3.48	2.95	3.32	3.57	4.01	4.88	4.31	4.66	5.97	7.42	2.8[illegible]
1973	4.80	4.08	3.89	3.69	3.58	3.70	3.77	3.96	5.17	7.09	4.8[illegible]
3. Personal Income Tax											
1968	3.58	1.50		2.43		3.33			6.18	20.50	6.05
1970	3.48	2.95	3.32	3.62	4.42	5.57	5.31	5.99	8.28	16.95	7.67
1973	4.80	4.08	3.89	3.76	3.75	4.23	4.78	5.15	7.14	15.48	7.57
4. Estates Duty:											
1968										0.95	0.15
1970										0.69	0.18
1973										1.34	0.37
5. Social Security and Payroll Taxes:											
1968	7.32	5.45		4.30		4.13			4.57	1.59	4.13
1970	6.75	10.08	7.80	4.22	4.66	5.76	5.16	4.47	4.14	1.07	4.52
1973	9.83	14.78	9.69	4.62	4.40	4.63	4.78	4.01	3.72	1.04	4.61
6. Total Direct Taxes:											
1968	10.90	6.95		7.73		7.46			10.75	23.04	10.33
1970	10.23	13.03	11.12	7.84	9.08	11.33	10.47	10.46	12.42	18.71	12.37
1973	14.63	18.86	13.58	8.38	8.15	8.86	9.59	9.16	10.86	17.85	12.55

/Table 8 (continued)

Table 8 (continued)

Taxes	Annual Income Range M. ($)										
	Below 1200	1200-1800	1800-2400	2400-3600	3600-4800	4800-6000	6000-7200	7200-8400	8400-12000	Above 12000	Total
II. Export Duties:											
7. Rubber											
1968	2.84	0.57		0.62		0.41			0.44	1.12	0.68
1970	1.69	1.55	1.29	0.75	1.03	1.29				0.93	0.38
1973	4.80	4.43	3.13	1.60	1.90	2.02				2.31	3.0[illegible]
8. Tin:											
1968										10.32	1.67
1970										6.28	1.65
1973										4.46	1.23
9. Other Export Duties											
1968	0.58	0.12		0.13		0.08			0.02	2.3[illegible]	0.45
1970	0.36	0.33	0.28	0.16	0.22	0.28				1.55	0.55
1973	0.89	0.82	0.58	0.30	0.35	0.37				1.25	0.58
10. Total Export Duties:											
1968	3.42	0.69		0.74		0.50			0.54	13.78	2.83
1970	2.05	1.88	1.57	0.91	1.25	1.57				8.72	3.08
1973	5.69	5.24	3.71	1.89	2.25	2.40				8.93	3.74
III. General Sales Tax:											
11. Sales Tax on Luxury Goods: 1973	1.01	0.82	0.73	0.71	0.55	0.52	0.44	0.41	0.36	0.22	0.49
12. Sales Tax on Domestically Manufactured and Imported Goods: 1973	2.40	2.04	1.95	1.85	1.79	1.85	1.89	1.99	1.86	1.20	1.71
13. Total Sales Tax: 1973	3.42	2.86	2.68	2.55	2.34	2.38	2.32	2.39	2.22	1.43	2.21

/Table 8 (continued)

Table 8 (continued)

Taxes	Annual Income Range M. ($) Below 1200	1200-1800	1800-2400	2400-3600	3600-4800	4800-6000	6000-7200	7200-8400	8400-12000	Above 12000	Total
IV. Excises and Import Duties:											
14. Tobacco Products and Alcoholic Beverages:											
1968	7.40	2.95		-.26		4.31			3.88	2.97	3.87
1970	5.45	4.38	4.60	5.06	4.53	5.10	3.71	3.58	3.16	1.78	3.77
1973	5.67	4.58	4.08	3.96	3.05	2.93	2.46	2.30	2.03	1.24	2.75
15. Heavy and Fuel Oils:											
1968	2.76	0.98		1.34		1.63			1.85	1.89	1.56
1970	1.76	1.29	1.33	1.37	1.53	1.67	1.42	1.55	1.40	1.00	1.34
1973	2.66	1.95	1.71	1.56	1.50	1.40	1.37	1.54	1.30	1.02	1.42
16. Petroleum, Road Transport and Motor Vehicle Fees											
1968	7.78	2.76		-.17		5.54			8.05	6.80	5.47
1970	5.58	4.46	5.04	5.30	6.19	7.78	7.53	7.92	7.87	4.49	5.75
1973	9.09	7.31	7.00	6.59	6.53	5.73	7.81	9.95	7.90	4.88	6.56
17. Sugar:											
1968	3.99	1.26		1.16		0.93			0.64	0.26	0.97
1970	2.70	1.55	1.39	1.24	0.98	0.91	0.60	0.60	0.41	0.14	0.87
1973	1.52	0.88	0.67	0.48	0.36	0.28	0.22	0.21	0.14	0.05	0.34
18. Textiles:											
1968	0.92	0.36		0.51		0.58			0.67	0.46	0.53
1970	0.81	0.59	0.69	1.16	0.68	0.81	0.60	0.73	0.63	0.32	0.60
1973	1.31	0.96	0.82	0.82	0171	0.72	0.74	0.72	0.62	0.35	0.68
19. Other Excises and Import Duties:											
1968	5.54	2.32		3.57		4.66			5.95	5.15	4.30
1970	4.86	4.11	4.63	-.98	5.60	6.81	6.02	6.51	6.13	3.66	4.96
1973	9.47	8.06	7.68	-.28	7.06	7.31	7.45	7.81	7.35	4.77	6.76

/Table 8 (continued)

Table 8 (continued)

Taxes	Annual Income Range M. ($)										
	Below 1200	1200-1800	1800-2400	2400-3600	3600-4800	4800-6000	6000-7200	7200-8400	8400-12000	Above 12000	Total
20. Total Excises and Import Duties											
1968	27.39	10.64		15.01		17.64			21.02	17.53	16.59
1970	21.16	16.38	17.68	18.62	19.51	22.76	20.02	20.90	19.59	11.41	17.29
1973	29.73	23.75	21.96	20.70	19.22	19.37	20.04	20.43	19.34	12.29	18.51
21. Total Sales Tax, Excises and Import Duties											
1973	33.15	26.61	24.64	23.25	21.55	21.75	22.37	22.82	21.57	13.71	20.71
22. Total All Taxes:											
1968	41.71	18.28		22.48		25.60			32.32	54.55	29.75
1970	33.44	31.29	30.37	27.37	29.84	35.68	30.49	31.36	32.01	38.84	32.73
1973	53.47	50.71	41.93	33.52	31.95	33.01	31.93	31.98	32.43	39.55	37.00
23. Total All Taxes Exclusive of Social Security and Payroll Taxes:											
1968	34.39	12.83		18.18		21.47			27.74	52.96	25.62
1970	26.70	21.21	22.57	23.15	25.18	29.92	25.33	26.89	27.87	37.77	28.21
1973	43.63	35.93	32.24	28.19	27.55	28.38	27.15	27.97	28.71	38.55	32.39
	Below 900	900-1800		1800-3600		3600-6000			6000-12000	Above 12000	Total
	Annual Income Range for 1968										

Sources: Ismail Muhd. Salleh, op. cit. p. 186-189.

/the

the upper income class fell from 13.78 per cent to 8.72 per cent. In 1973, households at lower income levels bore a much higher burden of export duties than in the previous two years.

(c) the effective tax rates of indirect taxes exhibit a regressive pattern at the two extremes of the income scale and this pattern become more pronounced over time. Thus, households in the lower income brackets paid relatively more in indirect taxes over these three periods while the reverse was true in the case of households at higher income levels.

The above findings led Ismail to conclude that "the distribution of the tax burdens in West Malaysia (i.e. peninsular Malaysia) has been more regressive over the periods 1968, 1970 and 1973. The strong redistributive intent of the Second Malaysia Plan through taxation, has done nothing to improve the after-tax distribution. Instead, it can be argued that they have contributed to worsening trend."15/

Ismail then studied the impact of taxation on the over-all distribution of income for the years 1968, 1970 and 1973. This was done by comparing pre-tax income distribution with after-tax distribution. The results are shown in table 9. One striking feature of the results shown by the table is that taxation in 1968 helped to reduce income inequality with the reduction index (i.e., the difference between the before-tax and the after-tax distribution indices as a percentage of the before-tax distribution index) exceeding 10 per cent. However, between 1970 and 1973, taxation had the effect of increasing inequality. Thus, the post-tax distribution exhibited a worsening trend over the three periods. This again implies that the over-all tax structure has become more regressive over the years.

Ismail also inquired into the distribution of the tax burden and the impact of taxes on income distribution by rural-urban residence as well as by ethnic group for 1973. The results of his study on the distribution of the tax burden by urban-rural residence and by ethnic group are shown in table 10. As shown in the table, the effective tax rate structure for urban households exhibits a U-shaped pattern. According to Ismail, the progressivity at the upper end of the income scale resulted primarily from individual income tax and export duties, augmented by corporate income tax and indirect taxes on petroleum, motor vehicles fees and other import duties and excises. Regressivity at the lower end of the income scale was mainly caused by indirect taxes.

/Table 9.

15/ Ibid., p. 201.

Table 9. Pre-and Post - Tax Gini Coefficients; Peninsular Malaysia 1968, 1970 and 1973

	Gini Coefficients		
	1968	1970	1973
Pre - tax	0.4583	0.5139	0.5037
Post - tax	0.4084	0.5166	0.5192
Reduction Index[1] (%)	10.88	- 0.51	- 3.09

[1](-) indicating worsening effect and (+) indicating improving effect on income inequality.

Source:

Ismail Muhd Salleh, op.cit, p.224

/Table 10.

Table 10. Distribution of the Total Tax Burden According to Rural-Urban Residence and Ethnicity by Income Size 1973

	Annual Income M($)										
	Below 1200	1200 - 1800	1800- 2400	2400- 3600	3600- 4800	4800- 6000	6000- 7200	7200- 8400	8400- 12,000	Above 12,000	Total
Rural Strata	40.94	33.51	30.37	26.38	24.80	26.62	25.04	23.74	35.06	40.99	28.28
Urban Strata	27.37	3315	28.61	27.2	25.99	25.01	24.88	27.19	27.31	44.93	33.66
Malay households	38.42	30.92	28.61	23.72	24.86	27.15	20.71	24.70	27.59	24.43	27.06
Chinese households	40.46	37.32	29.43	28.95	25.93	27.75	31.68	28.69	34.33	32.63	30.86
Indian households	45.37	32.20	31.62	32.11	28.23	27.33	31.66	33.37	32.80	29.88	30.88

Source: Ismail Muhd. Salleh, op.cit, p.210-212, 218-219.

/Over-all

Over-all effective tax rates for rur l residents appeared to be regressive at the lower end of the income scale and this was more pronounced than for urban households. Regressivity at the lower income levels is explained primarily by the burdens imposed by rubber export duty and indirect taxes. However, on average effective tax rates are substantially lower for rural residents than for the urban residents.

Looking at effective tax rates for the various ethnic groups at different income levels in the table, we find that the total tax burden for the Chinese and Indian households was estimated to be 30.86 per cent and 30.88 per cent respectively, while that for the Malay households was 27.08 per cent. Hence, on average, Malay households pays slightly lower taxes than the other two ethnic groups. Furthermore, the over-all tax structure also shows a substantial difference in the relative tax burdens borne out by the various ethnic groups within the same income brackets. Almost throughout the entire range of incomes, taxation in peninsular Malaysia seems to be biased in favour of Malay households. These results confirm Snodgrass finding for 1968 where he showed that the average over-all tax rate for the Malays was 25 per cent compared to 34 per cent for the non-Malays (see appendix II).

Another interesting aspect of the over-all effective tax rate structure shown in table 10 is the absence, for all the three ethnic groups, of the U-shaped pattern found for the total population as well as for urban and rural populations. The effective tax rate schedule for the three groups appear to be regressive for those households in the lower- and upper-income brackets, with some fluctuation for the middle-income groups. Such a pattern appears to imply that the tax system in peninsular Malaysia might be working more towards reducing inter-ethnic group income differentials than intra-ethnic group income differentials. In fact, tax incidence may even be worsening income inequality within a certain ethnic group (see later discussion).

Table 11 presents the results of Ismail's study on the impact of taxation on income distribution of both urban and rural residents as well as on the major ethnic groups. Comparing pre-tax and post-tax distribution for urban and rural residents, we find that taxation has led to improvement in the income distribution among urban households, but has worsened income

/Table 11.

Table 11. Pre - tax and Post - Tax Gini Coefficients by Urban-Rural Strata and Ethnic Groups, 1973

	Gini Coefficient		Reduction
	Pre - Tax	Post - Tax	Index
Urban Strata	0.4742	0.4348	+ 8.30%
Rural Strata	0.4516	0.4775	- 0.574%
Malay	0.4437	0.4692	- 5.75%
Chinese	0.4553	0.4475	+ 1.74%
Indians	0.4693	0.4598	+ 2.02%

Source: Ismail Muhd Salleh, op.cit., p.236-237

/inequality

inequality among rural households. Hence, while the progressive effect of taxation on urban income inequality is welcome, its regressive effect in the rural areas is cause for concern.

From the same table, we also find that, in the absence of taxes, the Gini ratio is lowest for Malay households and highest for Indian households and that Chinese households lie in between the two groups. However, the Gini ratio for the post-tax distribution is highest for the Malay households and lowest for the Chinese. This result indicates that the tax system of peninsular Malaysia in 1973 worsened income distribution among Malay households, while it helped to improve inequality among Indian and Chinese households.

This brief survey of the various studies on tax incidence and the impact of taxation on income distribution in peninsular Malaysia indicates that the redistributive effect of the tax system is very limited. Ismail attributes the limited role of taxation in redistributing income to several factors including:

(a) the tax structure in peninsular Malaysia is dominated by indirect taxes and export duties which are generally regressive;

(b) in the past, tax policy was essentially designed to meet revenue needs with little attention given to the redistribution goals. Hence, taxes which seemed to have greater revenue potential received higher priority;

(c) although the coverage of individual income tax has increased somewhat in recent years, its tax net is still very narrow. Furthermore, liberal exemption clauses and other allowances in the Malaysian income tax structure has reduced the potential progressivity of the tax system.

/B.

B. BENEFIT INCIDENCE

Studies on the benefit incidence of public expenditures for peninsular Malaysia are fewer than studies of tax incidence. Our discussion on this subject will be based largely on the results of two studies, one by Snodgrass[16/] and the other by Meerman.[17/] It must be stressed here that readers have to be cautious with the conclusions of these studies because of the complex methodological problems encountered in such studies.

In his study, Snodgrass categorized government expenditure into four major groups viz. (a) purchase of goods and services which was further broken into (i) public consumption and (ii) public investment; these two sub-items were then subdivided further using an activity code. The reason for doing so was to distinguish between expenditure which was regarded as being indivisibly consumed or invested on behalf of the entire population and expenditure which is allocable to particular beneficiaries; (b) transfer payments; (c) loan account payments and (d) purchases of assets. These are implicitly valued at cost and the study primarily focusses attention on direct primary beneficiaries which were classified by income size, ethnic group and region. Based on the results of his study (see appendix II), Snodgrass argue that the pattern of public expenditure helped to improve the distribution of income and social consumption in peninsular Malaysia. He then concluded that "the progressivity (of the fiscal system) has increased markedly over the years. The increase has come, by and large, not through taxation, but through expenditure.... Inequities in the distribution of public consumption have been reduced considerably, and the volume of transfer payments has risen. Perhaps most important of all, there has been a sharp rise in expenditure on investment projects specifically aimed at low-income groups. These changes are more evident in the racial tabulations than in (income) size-group.... The reason for this is that the government during this period had a well-developed rationale, political impetus and programme for redistribution of income along racial lines, while it did not have such a basis for redistribution among regions or from rich to poor generally. The advantages which low-income groups and states derived from fiscal changes in 1958-1968 were mainly a by-product of the programmes to redistribute income from non-Malays to Malays".[18/]

/However,

16/ D.R. Snodgrass (1978), op. cit.
17/ J. Meerman (1977) and (1977a), op. cit.
18/ D.R. Snodgrass (1975), op. cit., p. 283.

However, when we observe the distribution of the various categories of public outlays on per household basis, we find that in 1968 they are still very much pro-rich. For example, the benefits derived from Public Investment I by those in the $1,000 plus income group were about three and a half times that of those in the lowest income group. Hence, it is rather difficult for us to agree fully with Snodgrass conclusion.

Meerman's study also criticized Snodgrass study on several grounds, including the inferential way in which beneficiaries were identified and the use of arbitrary allocated overhead expenditure items to achieve a significant part of the allegedly redistributive effect of the over-all benefit incidence. To overcome these shortcomings, he adopted a different approach which involved calculation of the costs of government outputs in each of the major programmes as well as the actual utilization of these outputs by households. He then utilized these two sets of information to estimate per household or per capita government spending. Meerman's study is confined to public expenditure allocated to four major government programmes viz. education, medical services, public utilities and agriculture in 1973. Table 12 shows the functional distribution of federal expenditure, transfers and lending by probable beneficiaries in 1972, demonstrating the relative importance of each of these programmes.

The summarized findings of the Meerman study is presented in table 13. From the last column of the table we find that per capita expenditure on public programmes covered by his study was greatest for the wealthiest quintile and lowest for the poorest quintile. Meerman also points out that the poorest quintile lags with respect to every service except the medical service. Furthermore, if we arbitrarily divide the population into the poorest 40 per cent and the remaining 60 per cent, we find that expenditure on the public programmes under study was less on a per capita basis for the poor ($M 120.98) than for the non-poor ($M 133.61). Hence, the study suggests that the distribution of public outlay tends to benefit the non-poor households (especially those in the top quintile) more than poor households. According to Meerman, this situation is brought about by the fact that households in the wealthiest quintile received an extremely high share of post-secondary education.

We now focus our attention on the redistributive impact of public expenditure on education, health services and public utilities treated separately.

/Table 12.

Table 12. Functional distribution of Federal expenditures, transfers and lending by probable beneficiaries, 1972 a/
(million ringgits)

Type of expenditure	Total		Public overhead		Economic services generally supporting the modern sector		Outlays unlikely to greatly benefit the poor		Outlays possibly of disproportionately high value to the poor			
									Possibly asset creating		Probable consumption	
	Expenditures	Loans	Expenditures	Loans	Expenditures	Loans	Expenditures	Loans	Expenditures	Loans	Expenditures	Loans
1. General	1,637	02	1,637	02								
1.01 Internal security	312		312									
1.02 Defense	708		708									
1.03 General administration	273		273									
1.04 Charges on public debt	172		172									
1.05 Statutory grants to states and municipal	172		172									
2. Economic	638	400										
2.01 Land settlements	30	112							30	112		
2.02 Other agriculture and fishing	160	26							160	26		
2.03 Forestry	2						2					
2.04 Highways	120				120							
2.05 Other transportation	80	45			80	45						
2.06 Telecommunications	4	57			4	57						
2.07 Water supply	3	21							3	21		
2.08 Electricity	5	11				11			5			
2.09 MARA	41								41			
2.10 National Corporation		25								25		
2.11 Other economic services	73	104			73	104						
2.12 RISDA	120						66		54			
3. Social	1,470	38										
3.01 Education	878								878			
3.02 Health	260								260			
3.03 Sanitary services (sewer lines)		03								03		

/Table 12 (continued)

Table 12 (continued)

Type of expenditure	Total		Public overhead		Economic services generally supporting the modern sector		Outlays unlikely to greatly benefit the poor		Outlays possibly of disproportionately high value to the poor			
									Possibly asset creating		Probable consumption	
	Expenditures	Loans	Expenditures	Loans	Expenditures	Loans	Expenditures	Loans	Expenditures	Loans	Expenditures	Loans
3.04 Welfare services	18										18	
3.05 Housing	19	18					19	18				
3.06 Community development	22	17							22	17		
3.07 Recreation and related social services	12										12	
3.08 Broadcasting and press	67										67	
3.09 Government pensions	114						114					
3.10 EPF	79						59				20	
4. Unaccounted for	139											
4.01 Contributions to statutory funds outside of government	93											
4.02 Use of funds unknown	46											
Grand Total	3,884	441										
Less unaccounted for	3,745	441	1,637	02	277	217	260	18	1,453	204	117	

Source: J. Meerman (1977a), op. cit., pp. 1-5.

Note: a/ Includes Borneo states.

/Table 13.

Table 13. Distribution of basic services and costs, by basic partitions, peninsular Malaysia, 1974

(value in Malaysian dollars)

	Annual household per capita income	School enrolment rates			Percentage of households				Per capita distribution	
		Primary	Secondary	Post-secondary	Using public clinics	Inpatients in public hospitals	With piped/ pure water	With electricity	Of costs of Federal agricultural programmes	Of costs of all public expenditures charged in the Study a/
Mean	969	90	40	3.1	76	15	57	56	33	128
Income quintile										
1	234	85	33	00.7	89	14	23	24	12	109
2	428	86	33	01.2	85	18	47	47	45	133
3	621	93	40	02.3	78	11	52	49	38	131
4	958	99	44	02.6	78	20	68	65	27	128
5	2,620	90	48	05.5	62	12	83	84	34	142
		School enrolments								
Mean		94	40	.021						
Race										
Malay	775	89	41	.039	77	13	41	38	51	156
Chinese	1,244	97	38	.024	71	14	83	84	11	90
Indian	911	87	36	b/	82	30	68	74	10	109
Region										
Selangor	1,714	92	37	.057	59	10	76	81	7	110
Other	844	94	40	.034	82	17	65	62	43	137
North	689	84	40	.007	74	13	30	31	36	123
									Kuala Lumpur	131
Townsize										
Metropolitan	2,028	95	45	.090	62	15	89	90	6	126
Large urban	967	92	46	.023	77	18	58	69	12	108
Small urban	879	96	41	.038	77	11	63	72	11	115
Rural	696	88	36	.014	79	15	46	39	51	138

Source: J. Meerman (1977), op. cit., p.i.

Notes: a/ The sum of charged costs for education, medical care, agriculture and pensions.
b/ Sample too small to estimate.

/We

We first look at the distribution of public outlay on education which Meerman found to be pro-rich. Table 14 presents the total public costs (including imputed costs for capital services) of providing education at all levels in peninsular Malaysia. If we distribute public costs as a percentage of income, we will get a strong negative relationship between cost charged and income. This has led some people to suggest that the distribution of public educational outlay in Malaysia is extremely pro-poor. Meerman criticized such a conclusion as misleading because it is based on the false notion that benefit should be distributed according to income only and not according to the needs of the households which would take into consideration the number and corresponding ages of school-age children per household. By developing an alternative need-oriented approach, he found that relatively speaking, only 84 per cent of the educational needs of the poorest quintile are met while the richest quintile enjoys an excess of 37 per cent over their relative needs. Furthermore, he also shows that the current public subsidy per student at post-secondary level far exceeds those at secondary and primary level and that the major beneficiaries of this particular educational expenditure are the rich (see table 14). This finding is very disturbing indeed because, as shown in table 12, public expenditure on education has been the largest among outlays supposed to be of a disproportionately high value to the poor.

With regards to the distribution of public expenditure on medical services, Meerman's basic conclusion is that "the government's goal of making medical care to all Malaysia irrespective of income has been achieved".[19/] However, this favourable remark is not relevant for the distribution of government expenditure on three public utilities, i.e. piped water supply, electricity and flush sewerage disposal. The results of his own study show that "utility supply is highest in areas with high income and concentrated populations. In contrast, the low-income portions, viz. rural areas, the least developed North (the states of Kelantan, Trengganu, Kedah and Perlis) and the Malays (all three with high inter-correlation) were the least supplied".[20/]

Meerman's study also looks at the distribution of benefits from public expenditure according to ethnic groups and found that it is in favour of the Malays. On average, the benefits derived by the Malays is one and

/Table 14.

19/ J. Meerman (1977), op. cit., p. 27.
20/ Ibid., p. 31.

Table 14. Unit Costs, Enrollment Ratios At Different Levels of Public Schools and Total Current Federal Costs Per HH by Income Quintile

	Enrollment ratios			Total costs
	Primary	Secondary	Post-secondary	
Mean	.90	.40	.031	$ 411
Quintile of HPCI				
1	.85	.33	.007	$ 450
2	.86	.33	.012	$ 396
3	.93	.40	.023	$ 454
4	.99	.44	.026	$ 384
5	.90	.48	.055	$ 370
Federal current subsidy per student year	$ 238	$ 299	$ 3,197	

Source: J. Meerman (1977), op. cit., p. 7.

/three-quarter

three-quarter times of that gained by the Chinese and about one and a half times that enjoyed by Indians. This result confirms the findings of Snodgrass and reaffirms the contention that the Malaysian Government is more committed to reducing inter-racial income differentials rather than inter-personal income differences regardless of race.

Thillainathan's study provides further interesting information on the redistributive effect of some selective programmes undertaken by the Malaysian Government ostensibly to reduce the economic gap between Malays and non-Malays in the country. His close scrutiny of some government programmes (i.e. the FELDA land development scheme, irrigation schemes and education) revealed that differential support and subsidies have been given to different economic activities and groups of beneficiaries. In order to see the rational for such public expenditure decisions, he calculated the average annual income obtained by beneficiaries of these programmes; the results are shown in table 15. One interesting result of his study is that although FELDA settlers in both the oil palm and rubber schemes receive around the same amount of capital subsidy, the expected income stream of the former is almost twice that to the latter. He argued that an equal rate of subsidy for these two disparate groups cannot therefore be rationalized by reference to equity considerations.

A more striking result of his study was obtained when he compared subsidies and the expected income streams of post-secondary students with farmers. Although students are potentially high income earners in the country with an earning capacity well above that of rice farmers and FELDA settlers, subsidies to them are more than double the amounts received by the average farm family and the average settler family. These findings lead us to conclude that the policies providing differential subsidies to different groups of beneficiaries on the pretext of helping the Malays will eventually widen inter-personal income differentials in the country. It is therefore necessary to reconsider the present approach to distributing benefits if more equitable income distribution is to be achieved.

C. AGGREGATE BUDGET

Our discussion of the net redistributive impact of the fiscal system on various population groups will once again depend largely on the results of the Snodgrass and Meerman studies. However, as will be evident later in the discussion, this does not necessarily mean that we concur with the

/Table 18.

Table 15. Estimated Income of Subsidies By Activities (Undiscounted)

(M $)

	Average Annual Income	Total Subsidies
1. Oil Palm Scheme	4,094 (3,477)[1]	3,016
2. Rubber Scheme	2,895 (2,198)[1]	3,572
3. Irrigation Scheme	1,204	3,913
4. Higher Education	15,211	8,340

1. Figures given in brackets are the settlers incomes net of all loan repayment.

Source: R. Thillainathan (1976) "An analysis of the Effects of Policies for the Redistribution of Income and Wealth in West Malaysia 1957-1975", Ph.D Dissertation, University of London, p.200.

/conclusions

conclusions of these two studies.

In his study, Snodgrass used what he called the "net current balance" as an indicator of the redistributive impact of the fiscal system on particular segments of the population (see appendix II). This measure consists of public consumption plus transfer payments less the sum of taxes, payments for services and transfer payments received. His conclusion is as follows:

> "... the fiscal system as a whole was uniformly, if not very strongly, progressive. The regressivity of taxation of low income was more than offset by progressivity in expenditure. This over-all progressivity had increased by 1968.... On balance, Malays are estimated to have gained $M 167 millions through federal government current fiscal operations in 1958, while the non-Malays gave up about $M 24 millions.... The volume of redistribution had increased considerably by 1968, when more than $M 300 millions was in effect transfered from non-Malays to the Malays. This, in terms of Malaysian magnitudes, is income redistribution on a significant scale".[21]

However, bearing in mind the qualifications made by Snodgrass himself in his study as well as Meerman's criticisms about the manner in which benefit incidence was calculated, one has to treat this conclusion with great reservation.

Meerman also carried out a conventional analysis of the effects of budget activity on the size distribution of income. In his study, he compared the household per capita income (HPCI) before government budget effects (ex-ante income) with HPCI minus taxes and plus benefits (post-government income) to determine the redistributive effects of fiscal policy. The results of his study are shown in table 16. Meerman then concluded that the fiscal system in peninsular Malaysia had redistributed income from the rich to the poor. Accordingly, after all budgetary effects are considered, the income share of the lowest 40 per cent of the population increased from 14 per cent to 18 per cent, i.e. an increase of 29 per cent. He also shows that these "gains" by poor households were paid for by the rich, viz. those in the ninth and tenth decile of the income distribution scale.

However, Meerman's calculation of tax incidence for each of the deciles is based on the results of Andic's 1970 study which has been shown to be at great variance with the other studies. Therefore, in order to get a more accurate picture of the impact of fiscal operations on income distribution in peninsular Malaysia, we feel it is necessary to recalculate

/Table 16.

21/ D.R. Snodgrass (1978), op. cit., pp. 6-33 and 6-34.

Table 16. NORMALIZED BUDGET INCIDENCE BY COMPONENTS AND BY POPULATION DECILES 1974
(aggregate ex ante income = 100)

	1	2	3	4	5	6	7	8	9	tenth decile lower half 10a	tenth decile upper half 10b	Totals
ante-gov't income	17.85	30.35	39.89	48.24	57.86	69.90	85.92	111.61	154.99	220.48	546.78	100.
taxes	2.86	4.86	6.38	7.72	12.73	15.38	18.90	24.55	34.10	48.51	120.29	21.18
prorated benefits	1.82	3.10	4.07	4.92	5.90	7.13	8.76	11.38	15.81	22.49	55.77	10.28
charged benefits	9.83	12.59	13.23	14.17	14.34	12.66	12.01	14.32	13.92	14.06	16.45	13.23
post gov't income	26.64	41.18	50.81	59.61	65.37	74.31	87.79	112.76	150.62	208.52	498.72	102.25
income ratio	1.49	1.36	1.27	1.24	1.13	1.06	1.02	1.01	.97	.95	.91	1.02
net benefits	8.79	10.83	10.92	11.38	7.51	4.41	1.87	1.15	-4.37	-11.96	-48.06	2.25

Note: Magnitudes in each decile are mean per capita and are expressed as a per cent of the overall average HH per capita income. The deciles have equal population and are ordered by increasing HH per capita income.

Source: Meerman (1977), op. cit., p. 46.

/the

the tax incidence in each of the deciles by using the results of Ismail's 1973 study. The outcome of this exercise is shown in table 17. As can be seen from this table, only the lowest decile seems to have experienced a net gain from the budget activities, whereas other deciles suffer net losses. What is more interesting in the result is the marginal change in the income share of the bottom 40 per cent of the population. It only increased from 14 per cent to 15 per cent of total income. This result suggests that the fiscal operation only redistributed a very small proportion of total income from rich to poor. Moreover, studies on benefit incidence only take into account the primary direct beneficiaries. But, it is well-known, for example, that projects which are supposed to have the rural poor as direct beneficiaries also indirectly benefit the rich, e.g. contractors and suppliers. If studies were to cover the indirect beneficiaries, the effect of the fiscal system on income distribution would be more disheartening.

VI. RURAL DEVELOPMENT PROGRAMMES AND INCOME REDISTRIBUTION

In the earlier discussion, we showed that income inequality in the rural areas has increased over time. It is therefore interesting to see to what extent the government's rural development policies have contributed or retarded growing income inequality in rural peninsular Malaysia.

In order to better appreciate the redistributive impact of the various government programmes in the rural areas, it is important to roughly sub-divide the rural sector of the Malaysian economy into three distinct segments, i.e. (i) estates (officially defined as units of 100 acres or more under unified ownership and management), (ii) small-holders producing cash crops and (iii) subsistence peasant-producers and fishermen. Great disparities in the standard of living exist between them especially between the estates and the other two groups and within the latter groups. These imbalances (including the imbalances between the modern urban sector) have been such that the Malaysian Government has been forced to undertake a number of rural development programmes. At the beginning, these programmes were aimed at reducing the disparity in the provision of services between the modern (urban, estates and mine) sectors on the one hand and the traditional rural sector on the other. But in later years, as the gap between rural and urban areas continued to widen, increased emphasis was given to productivity raising projects. In the following sub-section, we will study the impact of some of the major rural development programmes such as the schemes for

/Table 17.

Table 17. Normalised Budget Incidence by Income Deciles, 1974
(aggregate ex-ante income = 100)

Deciles	1	2	3	4	5	6	7	8	9	lower half of 10	upper half of 10	Total
ante - govt income	17.85	30.35	39.89	48.24	57.86	69.90	85.92	111.61	154.99	220.48	546.78	100
taxes (ind.soc.secu.)	9.59	16.23	20.23	22.34	24.26	23.43	28.25	35.90	50.32	71.11	208.57	37.00
prorated benefits	1.82	3.10	4.07	4.92	5.90	7.13	8.76	11.38	15.81	22.49	55.71	10.28
charged benefits	9.83	12.59	13.23	14.17	14.34	12.66	12.01	14.32	13.92	14.06	16.45	13.23
post govt.income	19.91	29.81	36.96	44.99	53.84	66.26	78.44	101.41	134.4	185.92	410.37	86.51
income ratio	1.12	0.98	.93	0.93	0.93	.95	.91	.91	.87	.84	0.75	
net benefits	2.06	- 0.54	-2.93	-3.25	-4.02	-3.64	-7.48	-10.2	-20.59	-34.56	-136.41	-13.49

Sources: Tables 8 & Table 16 above.

/rubber

rubber replanting, land development, drainage and irrigation, agricultural price support and input subsidization on the size distribution of income in the country (appendix III shows the distribution of public expenditure for agricultural programmes, 1971-1980).

A. RUBBER REPLANTING PROGRAMMES

In the post-colonial period, the Malaysian Government continued with the programmes to revitalize the rubber industry, especially through the diffusion of new technology. Even though these measures were supposed to affect estates and the smallholders alike, the former reaped most of the benefits from these measures. One of the measures taken to revitalize the rubber industry has been the subsidized replanting schemes. However, replanting the smallholdings with improved higher yield clones proceeded at a slower pace than on the estates. For example, in 1970, only about 59 per cent of smallholder screage was under high-yielding rubber trees compared to about 90 per cent in the estate sector.[22/] One of the factors which contributed to this development is the fact that though rubber smallholders receive larger per acre replanting subsidies than estates, they are subject to strict condition which they find difficult to comply with. Another factor which also contributes to the slow pace in replanting among the rubber smallholders is the higher opportunity costs involved when smallholders replant, i.e. the substantial reduction of their current income stream. On the other hand, the estates can gradually plant their acreages in small proportions so as to spread out this temporary loss. As a result, the productivity gap between these two sectors of the rubber industry has not only persisted but has actually widened (see table 20). Under such circumstances, the estate-owners have easily improved their relative position. Their high yielding clones compensate for the falling price of rubber and even increase their income returns. Moreover, while the smallholders are discouraged from using the chemical yield stimulants, estates are free to do so. A number of large estates have also replanted part of their rubber acreage with other crops, particularly oil palm. This change gives the large estates a greater advantage over smallholdings because oil palm matures faster and its world price moves a a pattern rather different from that for rubber. The smallholders income

/Table 18.

22/ Lee Hock Lock (1978), Public Policies & Economic Diversification in West Malaysia, 1957-1970, University of Malaya Press, pp. 216-217.

Table 18. Yield Per Acre on Estates and Small-holdings 1949-73 (lb per acre)

Period	Estates		Smallholdings Yield per acre planted	Smallholder Yield ÷ estate yield[1]	
	Yield per acre planted	Yield per mature acre		A	B
1950 - 54	389	451	365	.94	.81
1955 - 59	420	529	359	.85	.68
1960 - 64	516	722	305	.59	.42
1965 - 69	689	894	379	.55	.42
1970 - 73	972	1,148	543	.56	.46

1. A = Smallholder Yield per acre planted ÷ estate yield per acre planted;

   B = Smallholder Yield per acre planted - estate yield per mature acre.

Sources: P.O. Thomas J.A. Fong Chu Chai (1968); Rubber Industry Statistics, RRI, K.L. Monthly Statistical Bulletin of West Malaysia, various issues, Dept. of Statistics, (1975).

Quoted from Snodgrass Dr. (1978) op.cit.

/returns

returns are also affected by the manner in which their output is sold. They usually sell their output as unsmoked sheet. The resultant low grading of the product further ensures low incomes.

The introduction of new technology has also enabled estate owners to replace the daily tapping routine with a less frequent tapping system. This change has brought about a substantial reduction in the number of labour employed in rubber production on the estates. Snodgrass has estimated that labour per unit of land fell from 14.9 workers per 1,000 acres in 1963 to 12.8 in 1972.[23/] In the same period, he also estimated that output per worker increased from 3,700 lb to 7,600 lb. As a result, total employment actually fell by 90,000 while production rose by 110,000 tons. This development once again increased the profits of the estates by a substantial margin and further widened the productivity gap between estates and smallholders.

It must also be pointed out that the response among smallholders to rubber replanting schemes are far from uniform. Different sub-groups of rubber smallholders react differently. Normally, owners of large plots or plots which have easy access to markets (and hence find it easier to inter-crop while new rubber is still immature) are more responsive to the replanting schemes than owners of smaller and more isolated holding. Georing[24/] estimated that while two thirds of all workers on smallholdings were Malays in 1962, smallholder acreage replanted during the 1952-1966 period was 62 per cent Chinese owned. Such developments were bound to increase income differentials among rubber smallholders.

B. LAND DEVELOPMENT PROGRAMMES

Apart from rubber replanting schemes, rural development programmes in peninsular Malaysia also involve opening of new land under various land development programmes. In fact, since 1957, land development has been a central part of Malaysian Government rural development policy. The main objective of these land programmes is to alleviate the land shortage problem faced by the majority of the rural population. This is to be achieved by providing settlers with farm holdings of an economic size based on modern techniques of agricultural production and management. The major land re-settlement schemes have been undertaken by the Federal Land Development

/Authority

23/ D.R. Snodgrass (1978), op. cit., pp. 7-19.

24/ T.J. Georing (1969), "Some thoughts on rubber and the replanting/new planting programmes", unpublished memorandum.

Authority (FELDA). By 1976, after 20 years in existence, FELDA had opened up 186 schemes, resettled 37,435 families and planted 812,684 acres with rubber, oil palm, sugar cane and cocoa.[25/] In addition to FELDA, there are five other land development programmes, i.e. the Fringe Alienation Scheme,[26/] the Controlled Alienation Schemes,[27/] the Youth Land Schemes,[28/] the State Land Schemes,[29/] and Group Settlement and Block Replanting Schemes.[30/] Of these land development schemes, FELDA has often been said to be the most successful.

Although the rate of land development under FELDA has been rapid, the cost incurred to develop these land schemes has been very high. By 1975, expenditure on FELDA totalled $M 989 million, i.e. an average of $M 26,400 per family settled.[31/] It must also be borne in mind that despite the rapid rate of land development undertaken by FELDA, less than 15 per cent of the rural Malay population, who form the bulk of the rural population, benefitted from these schemes. To make matters worse, according to the Deputy Director of FELDA, every year an estimated 10,000 families become landless. Hence, while it is true that FELDA has successfully expanded the supply of cultivated land and helped to slow down rural-urban migration in peninsular Malaysia, the impact or the land development programmes on income distribution in the country has been less encouraging. On the whole, expensive land development programmes benefit only a small proportion of the rural population. By raising their incomes a few times above that of most of the rural and urban poor, land development programmes have worsened income inequality in rural areas as well as in the country as a whole.

/C.

25/ FELDA (1976) "FELDA and its activities", mimeo. p. 1.

26/ In these schemes, land in developed for agriculture usually within 3 or 4 miles of an existing kampung with the primary aim of augmenting the income of smallholders. Initial development is carried out by the state government, with financial assistance from the federal government.

27/ Under these type of schemes, large blocks of land are made available by the state governments for development by individual smallholders who have to provide the developmental capital from their own resources. The state government charges rent for the land.

28/ These are state run schemes for unemployed youths entirely financed by the state governments. The settler who have to be single has to repay the cost of development and each settler is allocated 5 to 8 acres with eventual ownership.

29/ These state schemes are those undertaken and managed by the various state economic development corporations with loans from the federal government. They do not provide ownership or settlement and workers are paid as labourers.

30/ These are blocks of land developed for agriculture by state governments into holdings adequate to support a family unit. Land clearing is financed by the Rubber Industry Replanting Board. Housing settlements are by the state of under federal low-cost housing schemes.

31/ D.R. Snodgrass (1978), op. cit., pp. 7-29.

C. POLICIES TOWARDS OTHER AGRICULTURAL ACTIVITIES

1. Rice policies

Apart from rubber and oil palm, rice is another important crop cultivated in peninsular Malaysia. It has been estimated that rice production employs about 20 per cent of the total economically active population in peninsular Malaysia and 32 per cent of those in the agricultural sector.[32] At present, the total number of padi cultivators is about 300,000,[33] of which about 95 per cent are Malays. Padi cultivators can be roughly divided into two groups, i.e. those cultivators in the "rice bowl" areas (of Kedah, Province Wellesley, Perlis, Kelantan, the Krian District of Perak and the Tg. Karang area in Selangor), who are mostly provided with irrigation facilities and produce largely for the market along sophisticated profit maximising lines and those who cultivate small pockets of land with no irrigation facilities and produce primarily for their own consumption. Production is more efficient among the former group. Despite that, the incidence of poverty in this sector of the rural economy remains high. In 1970, it was estimated that 88 per cent of padi farmers are poor.[34]

The Malaysian government has undertaken several measures to increase the incomes of rice cultivators. One of the major measures taken has been the provision of drainage and irrigation facilities to enable the rice cultivators to double crop and to reap the benefits of the Green Revolution. Expenditure on drainage and irrigation works in padi areas has increased significantly from $M 38.3 million in the 1956-1960 period to $M 328.5 million in the 1961-1965 period when the construction of the giant Muda and Kemubu schemes were undertaken. By the end of 1970, according to Selvadurai,[35] out of 943,000 acres of padi land, about 620,000 acres had been provided with irrigation facilities. Out of the total irrigated land, about 286,000 acres could be double-cropped while the remaining 334,000 acres remained single-crop areas.

/However,

32/ C.P. Brown, Rice Price Stabilization and Support in Malaysia, in David Lim (ed.) op.cit., p.97.

33/ The Third Malaysia Plan, op.cit., p.164.

34/ Ibid.

35/ S. Selvadurai, (1972): Padi Farming in West Malaysia, Kuala Lumpur, Ministry of Agriculture and Fisheries.

However, despite the large expenditure on the rice sector, "the rate of growth and income levels in rice producing sector still lagged far behind those of alternative agricultural sectors, to say nothing of the urban sector".[36] Double-cropping and usage of new seed varieties have not all been successful. By 1970, double-cropping and the introduction of high-yielding varieties had affected only 36 per cent and 51 per cent respectively of the total cultivated area. Huang has also compared those areas successful in double cropping with those not. He found that "double cropping can only be successful in areas where padi farmers are already producing a significant amount for the market and depend on padi farming for most of their cash income". Furthermore, in the successful areas, "farms were relatively large averaging between three and five acres: the soil was fertile",[37] while in the unsuccessful areas, the farms were small, yields low and irrigation facilities poor. As many rice-producers work on small farms (in 1956, the average size of a rice-land holding in Kelantan was only 0.88 acre, 2.27 acres in Province Wellesley, 2.85 acres in Perlis and 4.4 acres in Kedah) the consequences are rather obvious.

Public investment in the rice sector, especially in irrigation and drainage works, has also raised questions as to its equity effects within the rice sector itself. It has been argued that as "gains from improved water control are embodied in the land, the return from them will accrue mainly to the owner of land and labour as a factor of production will benefit little".[38] This means that the larger the land owned, the greater will be the benefits derived from improved water control. Hence, since there exists wide dispersion in the distribution of rice farm land owned by the rice farmers,[39] the resultant income distribution has become more skewed. This contention is confirmed by the findings of the FAO-IBRD Muda River Study of 1972/73 which concludes that "..... there appears to have been a noticeable tendency for the inequality of income to increase (in the Muda area)".[40] In another study on the Muda Irrigation project, it was found

/that

36/ M. Rudner, "The Malayan Quandry: Rural Development Policy", in David Lim (ed.) op.cit., p.83.

37/ Yukon Huang, "Some reflections on Padi Double-Cropping in West Malaysia", reprinted in Dr. Lim, op.cit.

38/ D.R. Snodgrass (1978), op.cit., pp. 7-41.

39/ In 1960, about 1/4 of the 300,000 rice farmers are pure-tenants another 1/4 are owner-tenants and the remaining half are owner-operators.

40/ FAO (1975) "The Muda Study - A First Report", Food and Agriculture Organization, Rome, September, vol. II.

that the "inter-temporal trend in the distribution of farm size ..... clearly suggests increasing inequality".41/

Another important policy instrument used by the Malaysian government to support the padi sector is the rice price support policy. Under this policy, rice producers are guaranteed a certain minimum price for their produce. It has been argued that this policy benefits rice producers in the form of more stable and higher incomes and the country by saving foreign exchange. However, equity considerations have been raised. This is because the apparent subsidy involved in this policy is actually financed by requiring rice importers to purchase locally grown rice in return for permits to import cheaper rice from abroad. These costs are then passed on to the consumers who bear the real cost of the subsidy. Since rice is the staple food item in the Malaysian diet, all rice buyers, including those in the rural areas who do not produce (or do not produce enough) rice, are burdened in favour of those who produce enough for the market. To the poor in both the rural and urban areas, who devote nearly 30 per cent of their budget to rice, this price support policy may be especially burdensome. Furthermore, it is still not certain as to what proportion of the benefits from this policy have actually accrued to the producers since much of this may have been absorbed by higher production costs.

2. Policy towards fishing activities

Another sizeable rural group is the fishing community. In 1970, it was estimated that there were about 38,000 fishermen equally divided between the west and east coasts of peninsular Malaysia. The incidence of poverty in the fishing community is relatively high - about 73 per cent in 1970. A major part of government efforts to improve the livelihood of the fishermen has been through the subsidized distribution of boats, engines, nets and gears, provision of credit, improved marketing and the construction of better landing sites. However, these programmes hardly affect the existing situation in the fishing industry which is very much dominated by big "towkeys" owning big boats while the majority of the fishermen work on these boats as wage labourers. Gibbons, for example, observed that "the modernization and economic growth in the fishing in peninsular Malaysia

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41/ S. Jegatheesan, (1977) "The Green Revolution and The Muda Irrigation Scheme", Muda Agricultural Development Authority, mimeo., p.57.

since World War II has not been accompanied by or followed with sizeable reduction in poverty or increases in the levels of living among traditional fishermen. Rather, most of the economic surplus generated through modernization of the industry has been extracted by boat-owners".[42/] This development worsens the income inequality situation in the rural areas.

The above findings on the redistributive impact of some of the major rural development programmes in peninsular Malaysia appear to confirm the contention that the introduction of new technolcgies as well as the provision of various facilities and subsidies in the rural areas mostly benefit the rich. This outcome is not at all surprising because it is only the rich who are able to take advantage of the facilities and technologies provided by the state owing to the suitability of their land, the availability of their capital, the knowledge they have and the political connexions and influence they possess. In the midst of these changes, the majority of the peasants, who do not respond because of the circumstances they are in, continue to earn barely enough to meet their basic reeds. As a result, while the rural rich have been able to increase their income at a faster rate than before, the majority of the small, disadvantaged and exploited peasants are still struggling to make ends meet.

It has also been noted that "the devotion to inequality reduction as the major goal of rural development has been less than universal and unwavering ..... (In) a few key areas, notably rubber replanting and perhaps also land policy in padi cultivation, deference has been paid to narrower economic interests which possess political influence".[43/] By taking all these factors into consideration, we have better explanations as to why rural development policies have had certain effects on income inequality in rural areas. As we noted in table 2, income inequality within the rural areas has become markedly more unequal over the years.

VII. INDUSTRIAL POLICY AND INCOME REDISTRIBUTION

As a reault of colonial economic policy, the industrial sector of the Malayan economy in 1957 was very small. Since then, some measures have been taken to provide favourable conditions for both foreign and local private enterprises

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42/ D.S. Gibbouo (1976), "Public Policy Towards Fisheries Development in Peninsular Malaysia: A Critical Review Emphasizing Penang and Kedah", in Kajian Ekonomi Malaysia, vol.XIII, No. 1 and 2, June/December.

43/ D.R. Snodgrass (1978), op.cit., pp. 7-56/7-57.

to enlarge the manufacturing sector. The Pioneer Industries Ordinance 1958, for instance, granted tax concessions to firms in pioneer industries in the form of a relief from the 40 per cent tax on their profits for a period of two to five years depending on the size of the initial investment. Apart from granting direct tax concessions, the government also adopted other measures which have also been employed in many other developing countries, such as tariff protection, subsidized provision of factory sites and improved credit facilities.

Attracted by these inducements, a considerable number of pioneer firms were set up in peninsular Malaysia in the sixties. By 1968, they accounted for 28 per cent of value added of the manufacturing sector and for nearly half of this sector's growth in the preceding eight years. Most of these pioneer firms, however, were relatively capital intensive. In 1968, their value added per full-time paid employee was over $M 12,000, i.e., five times the average in the economy as a whole and three times the level prevailing in the industrial sector generally. Moreover, these pioneer establishments were also predominantly foreign owned and heavily oriented towards producing consumer goods for the domestic market. In 1968, 70 per cent of the value added in all pioneer establishments came from foreign-owned firms. Hence, the establishment of pioneer firms further increased the already high foreign share of the Malaysian economy. Geographically, these firms were highly concentrated in the urban areas of a few west coast states of peninsular Malaysia, particularly in the Klang Valley of Selangor. There was little or no pioneer industries in the least developed areas of the East Coast or the North-West. Yet, the development of pioneer industries, with all the above characteristics, as we shall see later, was to exert considerable influence on income and wealth distribution in peninsular Malaysia.

The development of the manufacturing sector during the sixties was rather rapid. This development has generated benefits for some Malaysians at the cost of higher prices of manufactured goods to consumers and a higher tax burden for tax payers because of the negligible fiscal contribution of the manufacturing sector. The 1968 Census of Manufacturing Industries, for example, showed that the salaries and wages paid to about 121,000 full-time and 9,000 part-time employees in the 9,000 manufacturing units covered in the Census totalled about $267 million, thus averaging over $2,000 per employee per annum. The benefits to those who have been able to get manufacturing jobs, especially at the managerial and professional level, have thus been substantial and have hence increased disparities

/between

between them and those in the peasant economy (see table 19). Due to the geographical distribution of the industries, income disparities between the rural and urban areas as well as between the more developed states of Selangor, Negeri Sembilan, Perak and Penang on the one hand, and the other states in the East Coast and North West on the other also widened.

Table 19. Earnings of unskilled labour in the modern sector and peasant economy, 1968

	$M per annum
1. Rubber tappers on estates	1,200
2. Unskilled labour in government services	1,008
3. Direct factory labour in manufacturing industry	1,596
4. Average earnings per worker in rice sector	
Kelantan	248
Tg. Karang	475
5. Average earnings per worker on low-yielding rubber smallholdings	239

Source: E.L.H. Lee, "Income Distribution in a Developing Economy: A Case of West Malaysia", Ph.D Dissertation, Oxford University, 1975, p.128.

The 1968 Manufacturing Census also showed that though establishments with majority foreign ownership accounted for only 6 per cent of the establishments covered in the Census, on average, they were much larger than the domestically owned firms that they accounted for 47 per cent of gross sales, 48 per cent of the total value added and 52 per cent of non-wages/salaries value added. This demonstrates that foreign control over manufacturing industry is substantial though not as obvious as in the rubber and tin industries. It also implies that a large share of the non-wages/salaries income generated flows out of the country into foreign hands, especially when we bear in mind that foreign-owned manufacturing firms have much lower reinvestment rates than domestically-owned firms.

While industrial development in peninsular Malaysia provides business opportunities and employment to a small section of the population, it burdens the whole population in two ways. Firstly, by providing the firms with tax relief and other facilities, the industrial programmes burden the taxpayers by imposing higher and new taxes on them to make up for the loss of revenue and

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the expenditure allocated. As we have noted earlier, the tax system has been regressive over the years especially for those in the lower income groups. Secondly, the protection policy means that the consumers of the manufactured goods, including the poor, have to pay higher prices for the goods bought. It is therefore legitimate to ask whether it is equitable when manufacturers are subsidized to make huge profits at the expenses of tax payers and consumers.

The development of the manufacturing sector in the seventies saw some efforts by government to disperse industries to less developed areas. Hence, special "Development Area" incentives were added to the Pioneer Industries legislation. Though there has been some actual dispersion outside the industrial area of the Klang Valley, this has mainly been to other west coast urban centres like Seremban, Ipoh, Province Wellesley and Malacca rather than to the North West or the East Coast. Hence the income distribution and employment benefits were probably minimal.

On the whole, the development of the manufacturing sector in the seventies shows that the main features of industrial policy in the sixties have been continued and accentuated. There is still heavy dependence on foreign capital and increasing protection of the domestic market. Although some efforts have been made to encourage labour-intensive export industries in the country, the tendency for pioneer firms to be capital intensive persists. Furthermore, though the establishment of textile plants and electronic assembly plants by foreign firms in free trade zones have no doubt absorbed a substantial number of workers, the majority of those employed are women who are paid very low wages. This means that the impact of such policy on the male labour force is very minimal. Therefore, one is inclined to conclude that the industrial policy in peninsular Malaysia continues to have a regressive impact on income distribution in the country.

VIII. POLICIES TO RESTRUCTURE OWNERSHIP PATTERN AND TO REDISTRIBUTE INCOME

One of the objectives of the New Economic Policy launched in 1970 has been to correct economic imbalance between the ethnic groups particularly between the Malays and the non-Malays. In the sixties, some efforts were made to encourage the participation of Malays in the modern industrial and commercial sector of the economy, which has long been dominated by foreign and non-Malay capitalists, particularly the former, through the establishment of Rural Industrial Development Authority (RIDA). But such efforts has failed to bring any significant change

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in the ethnic composition of ownership and control in those sectors. These early failures as well as political developments after the 1969 General Election have enabled the small but growing group of Malay businessmen to exert growing pressure on the government for more active and bolder approaches to the problem. Hence, after 1970, with the government already committed to the goals of creating an indigenous (i.e. Malay) commercial and industrial community by 1990 and of achieving 30 per cent ownership and control of all commercial and industrial activities by the indigenous people over the same period, greater efforts were made towards achieving the objective of restructuring the ownership and employment pattern of the economy.

The policy to restructure the ownership and employment pattern of the Malaysian economy consists of expanded efforts to create a Malay capitalist class and direct state involvement in owning and managing large-scale public enterprises on behalf of the Malays. Thus, after 1970, apart from setting up new agencies (such as the Bumiputra Assistance Unit in the MIDF (Malaysian Industrial Development Finance), Credit Guarantee Corporation, etc.) to promote Malay businessmen, budget allocation to existing agencies (such as MARA, the Council of Trust for the Indigenous People) with functions relevant to Malay business promotion were increased considerably. Apart from these, various forms of public enterprise have been created to be instruments for implementing these policies. There are corporations like PERNAS (National Corporation), UDA (Urban Development Authority), Bank Bumiputra, etc., at the national level, as well as regional organizations like MADA (Muda Agricultural Development Authority), DARA (Pahang Tenggara Regional Development Authority), KADA (Kemubu Agricultural Development Authority), KETENGAH (Central Trengganu Development Authority) and many others. In addition, in every state, there exists a State Economic Development Corporation (SEDC). These public corporations are either wholly owned by the government or joint-ventures with foreign and local partners. They are large business ventures and are involved in all kind of activities. Table 20 shows the number of companies, and the total amount of capital invested in four public corporations. (To see how diverse the various activities of some of these corporations are, see appendix IV.)

/Table 20.

Table 20.

Data on Publicly-Sponsored Enterprises

in Commerce and Industry, c. 1977

--Companies in which Parent has Interest--

Parent Enterprise	Wholly Owned Companies	Partly Owned Companies Equity 50% or More	Partly Owned Companies Equity Less than 50%	Total Number of Companies	Total Amount Invested ($ million)
MARA	15	13	6	34	47.9
UDA	2	50	25	77	81.4
PERNAS	12	20	14	46	116.3
SEDC's	23	72	39	134	197.7
Total	52	155	84	291	443.3[1]

NOTE: [1] Total investment by the parent enterprises in companies having total paid-up capital of $733.6 million.

SOURCE: M.C. Puthucheary (1977, pp. 10-11); information on numbers of companies based on data from the Ministry of Public Enterprise for MARA, UDA and the SEDC's and on Chopra (1977, p. 59) for PERNAS; information on capital invested based on "information received from interviews, annual reports, etc."

/Public

Public expenditure allocated for these programmes have expended very rapidly in the past few years. As shown in table 21, the actual public development expenditure for the various public corporations and agencies in the commercial and industrial sector has increased from $M 137 in 1966-1970 to $M 1,552.3 million in 1970-1975. An additional $M 1,660 million has been allocated for use in 1976-1980.

What is crucial for our understanding of the impact of these policies on income distribution is that most of the governing boards or councils of these public corporations are made up of politicians, active or retired government servants and members of the royal families. At the management level, the directors are former senior officers of the Malaysian Civil Service (MCS) and a majority of their administrative and professional staff are former government officials. This situation poses several problems. As Snodgrass has pointed out: "Although appointed by the political authorities, they have the opportunity to acquire substantial financial resources and operating autonomy. This creates several dangers. One is large scale corruption. Another is the use of wealth and power to 'buy' political followings. Yet, a third is the possibility that the policy sill spawn an industrial empire which will eventually become uncontrollable by political authority ....." 44/ The recent revelation by UMNO leaders at the UMNO Annual General Assembly of deliberate misappropriation of the government-sponsored Bank Rakyat's funds for political activities clearly testifies to the possibility of these dangers.

Furthermore, it is also important to note that the establishment of these public corporations has affected only a small percentage of the Malay labour force. For example, from its beginning in 1970 through 1973, PERNAS has assisted less than 5,000 Malays. In the same period, the increase in the Malay labour force alone was more than 300,000. Thus, PERNAS could have affected only a very small proportion of new entrants into the labour market. With the entire Malay labour force numbering in the millions its impact must have been very small. But, by mid-1973, PERNAS expenditure was estimated to have exceeded $M 100 million.

/Table 21.

44/ Snodgrass (1978), op.cit., pp. 8-33.

Table 21.
Public Development Expenditure for Commerce and Industry in Peninsular Malaysia, 1966-80 ($ millions)

Program	1966-70 Actual	1971-75 Original Allocation	1971-75 Revised Allocation	1971-75 Actual	1976-80 Original Allocation
PERNAS	10.0	100.0	150.0	150.0	200.0
MARA	50.9	73.0	183.4	205.3	315.0
SEDC's	-	45.6	150.0	190.5	368.8
Industrial estates	19.3	4.4	22.8	18.0	-
UDA	-	100.0	160.0	182.1	200.0
MIDF	16.0	100.0	100.0	100.0	-
Malaysian Rubber Development Corporation	2.6	35.0	50.0	60.6	132.9
Malaysian International Shipping Corporation	10.1	46.0	107.0	113.0	11.0
Other economic enterprises(1)	7.3	45.1	95.9	233.7	170.9
Tourism	0.4	10.0	9.4)		
FIDA	3.4	-	-)	29.1	52.0
NISIR, SIM, NPC(2)	0.3	5.5	15.0)		
Selangor Government	-	-	100.0	260.0	-
PETRONAS	-	-	-	10.0	-
Contribution to Bumiputra Investment Fund	-	-	-	-	200.0
Others	16.7	-	16.1	-	0.3
TOTAL	137.0	564.5	1,159.7	1,552.3	1,600.8

NOTES: (1) Includes FIMA (Food Industries of Malaysia Sdn. Bhd.), Bank Pembangunan, Malaysian Shipyard and Engineering, and others.

(2) National Institute of Scientific and Industrial Research; Standards Institute of Malaysia; National Productivity Centre.

SOURCES: Columns 1 and 2: Second Malaysia Plan 1971-75 (1971, p. 69).

Column 3: Mid-Term Review of the Second Malaysia Plan 1971-75 (1973, p. 99).

Columns 4 and 5: Third Malaysia Plan 1976-80 (1976, p. 240).

/Much

Much of the foregoing discussion suggests that policies to restructure the pattern of wealth ownership and employment in the Malaysian economy have had a regressive impact on the country's income distribution. It is true that the policies have succeeded in increasing the Malay share of the economy to some extent. According to the Mid-term Review of Third Malaysia Plan, the proportion of share capital in limited companies owned by Bumiputra individuals and Bumiputra interests[45/] has increased from 2.4 per cent in 1970 to 10.3 per cent in 1978. But this has been achieved by spending thousands of millions of ringgits with little benefit for the majority of poor Malays in the rural areas. The few who have benefitted considerably from these programmes are the Malay higher income groups. This development has probably resulted in a substantial increase in income inequality among the Malays. It is expected that such trends will persist and perhaps even accelerate in the future.

IX. CONCLUSIONS

The evidence in the preceding discussion on the impact of some of the major public policies on income distribution in peninsular Malaysia, has reviewed the performance of the Malaysian economy in achieving the objective of more equitable distribution of income and wealth. It has been argued that the various public policies under study appear to have had a tendency to accentuate income differentials within the Malaysian society. Even the Malaysian fiscal system, which could play an important role in redistributing income from the rich to the poor, has been shown, though not conclusively, to have had a regressive impact on the size distribution of income in the country. It has also been shown how some policies, such as the rural development programmes, which are supposed to generate great benefits to the poor, have benefitted the rich more than the poor. The government's emphasis on income disparities between the major ethnic groups rather than on inter-personal income differentials has also been shown to have contributed to worsening income inequalities in the country. Although it is true that the gap between the average mean household incomes of Malays and non-Malays has been narrowed during the 1957-1973 period, income inequality within each ethnic group particularly the Malay community, has worsened.

/These

45/ Bumiputra individuals includes institutions such as MARA Trust Funds, Tabung Haji (Pilgrimage Fund) and co-operation which channel private funds of individuals for investment. The term "Bumiputra" is used to denote Malays and other indigenous people. Malay interests refer to shares build by MARA, PERNAS, UDA, SEDCs, FIMA (Food Industries of Malaysia Bhd.), Bank Bumiputra, Bank Pembangunan and Bumiputra Investment Foundation.

These developments require greater attention from the various authorities concerned in formulating future policies. The issues involved are not just problems of implementing the various government programmes; there needs also to be serious reexamination of how problems of poverty and income inequality are conceptualized and the various strategies and policies designed to overcome these problems are formulated. In many developing countries of the Third World, both government planners and academicians have expressed their growing concern as to the effectiveness of traditional approaches to overcome the problems of income inequality and poverty in their countries. In some cases, new approaches to these problems have emerged. Such efforts are required in Malaysia so that the existing growing inequalities can be reversed and the fruits of development can be enjoyed by the majority of the population.

/Appendix I

Appendix I

Peninsular Malaysia: Source of tax revenue 1960-73.

Taxes ($ Mil.)	Year													
	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Corporation income tax	139.6	171.8	180.7	175.6	170.6	191.5	221.8	241.7	259.2	290.5	393.5	410.9	446.9	509.6
Percent of revenue	15.8	19.7	20.5	19.2	17.8	17.5	18.3	18.4	18.9	18.6	21.8	22.1	20.9	18.9
Individual income tax	46.6	60.4	57.0	58.5	60.0	74.5	95.1	119.0	116.5	130.5	167.5	167.3	191.6	216.4
Percent of revenue	5.3	6.9	6.5	6.4	6.3	6.8	7.9	9.1	8.5	8.3	9.3	9.0	9.0	8.2
Payroll tax						18.1	20.8	22.5	23.5	26.0	28.6	6.5	1.6	0.9
Percent of revenue						1.7	1.7	1.7	1.7	1.7	1.6	0.3	0.1	0.-
Estates duty	4.7	4.0	5.7	5.4	7.5	7.4	6.2	9.4	7.2	8.2	10.0	10.5	35.2	27.4
Percent of revenue	0.5	0.5	0.6	0.6	0.8	0.7	0.5	0.7	0.5	0.5	0.6	0.6	1.7	1.0
Total direct taxes	190.9	236.2	243.1	239.5	238.1	291.5	343.9	392.6	406.4	455.2	599.6	595.2	675.3	756.3
Percent of revenue	21.6	27.0	27.6	26.2	24.9	26.6	28.4	29.9	29.6	29.1	33.2	32.0	31.7	27.5
Export duties	259.9	192.0	177.3	181.7	199.9	229.4	214.2	189.3	192.7	268.8	250.3	223.0	226.1	418.7
Percent of revenue	29.4	22.0	20.1	19.9	20.9	21.0	17.7	14.4	14.0	17.2	13.8	12.0	10.6	15.4
Import duties[a]	353.5	357.9	364.1	351.4	312.1	324.7	311.3	388.1	424.5	456.0	474.0	483.0	492.9	626.4
Percent of revenue	40.0	41.0	41.4	38.4	32.6	29.7	25.7	29.5	30.9	29.1	26.2	26.0	23.1	23.1
Excise duties	7.9	7.6	9.1	36.6	89.3	101.3	132.8	150.1	164.0	180.3	247.1	305.6	363.0	405.4
Percent of revenue	0.9	0.9	1.0	4.0	9.3	9.3	11.0	11.4	11.9	11.5	13.7	16.4	17.0	14.9
Road transport	54.8	62.2	67.2	80.2	90.6	108.3	130.2	137.6	140.5	152.9	165.6	166.1	188.2	219.3
Percent of revenue	6.2	7.1	7.6	8.8	9.5	9.9	10.8	10.5	10.2	9.8	9.2	9.0	8.8	8.1
Sales tax													83.4	164.0
Percent of revenue													3.9	6.0
Other taxes[b]	15.7	17.8	19.6	25.1	28.0	39.2	8.0	56.4	44.6	51.2	71.1	86.5	104.2	125.5
Percent of revenue	1.8	2.0	2.2	2.7	2.9	3.6	6.4	4.3	3.2	3.3	3.9	4.6	4.9	4.6
Total indirect taxes	431.9	445.5	460.0	493.3	520.0	573.5	652.3	732.2	773.6	840.4	957.8	1042.1	1124.5	1540.6
Percent of revenue	48.9	51.0	52.2	53.9	54.3	52.4	53.9	55.7	56.4	43.7	53.0	56.2	52.7	56.7
Total all taxes	882.7	873.7	880.4	914.5	958.0	1094.4	1210.4	1314.1	1372.7	1564.4	1807.7	1859.3	2133.3	2725.6
Percent of revenue	100	100	100	100	100	100	100	100	100	100	100	100	100	100

[a] Includes surtax on imports.
[b] Other taxes include turnover tax, tb and radio licenses, film renter tax, lottery, betting and sweepstakes, stamp duties, business registration fees, royalties and others.

Sources: Ismail Muhd. Salleh, op. cit, p. 25

/Appendix II

Appendix II

Table I

Snodgrass's MAJOR FINDINGS BY INCOME SIZE GROUPS

	1958				1968			
	$ million	Per cent of total	Per cent of adjusted income[1]	$ per[2] household	$ million	Per cent of total	Per cent of adjusted income[1]	$ per[2] household
Taxes								
$0-150	143·5	24·9	21·9	264	281·8	19·4	31·2	369
$150-500	259·8	45·0	16·6	500	572·7	39·4	25·5	847
$500-1,000	62·4	10·8	13·7	1,071	169·4	11·7	22·9	2,058
$1,000-	111·7	19·3	26·7	7,071	429·8	29·6	50·8	14,326
Total	577·5	100·0	18·6	507	1,453·6	100·0	30·7	937
Public consumption I[3]								
$0-150	63·4	34·7	9·7	116	160·2	43·2	17·8	210
$150-500	85·0	46·4	5·4	164	163·2	44·0	7·3	241
$500-1,000	10·3	5·6	2·3	176	26·9	7·2	3·6	327
$1,000-	24·3	13·3	5·8	1,539	20·9	5·6	2·5	696
Total	182·9	100·0	5·9	161	371·1	100·0	7·8	239
Public consumption II								
$0-150	206·4	38·2	31·5	379	426·4	41·9	47·3	473
$150-500	266·9	49·4	17·0	514	477·8	47·0	21·3	707
$500-1,000	36·0	6·7	7·9	618	75·3	7·4	10·2	915
$1,000-	31·1	5·8	7·4	1,969	37·7	3·7	4·5	1,255
Total	540·5	100·0	17·4	475	1,017·2	100·0	21·5	656
Transfer payments								
$0-150	134·0	51·7	20·4	246	240·4	41·3	26·6	315
$150-500	107·8	41·6	6·9	208	273·0	46·9	12·1	404
$500-1,000	14·1	5·4	3·1	242	40·6	7·0	5·5	493
$1,000-	3·3	1·3	0·8	210	28·3	4·9	3·4	945
Total	259·3	100·0	100·0	228	582·3	100·0	12·3	375
Net current balance[4]								
$0-150	+176·8		+27·0	+328	+338·2		+37·5	+443
$150-500	+71·9		+4·6	+138	+100·7		+4·5	+149
$500-1,000	−21·2		−4·6	−364	−75·0		−10·1	−911
$1,000-	−84·1		−20·1	−5,324	−385·8		−45·6	−12,860
Total	+143·5		+4·6	+126	−21·9		−0·5	−14
Public investment I								
$0-150	30·8	33·4	4·7	57	149·2	43·3	16·5	195
$150-500	46·0	49·9	2·9	88	141·7	41·1	6·3	210
$500-1,000	5·4	5·9	1·2	93	36·4	10·6	4·9	443
$1,000-	10·0	10·8	2·4	632	17·1	5·0	2·0	570
Total	92·1	100·0	3·0	81	344·4	100·0	7·3	222
Public investment II								
$0-150	37·9	35·9	5·1	61	155·5	42·8	16·3	188
$150-500	51·5	48·8	2·9	87	149·9	41·3	6·3	213
$500-1,000	6·1	5·8	1·2	91	39·0	10·7	5·1	456
$1,000-	10·0	9·5	2·6	796	18·6	5·1	2·1	628
Total	105·5	100·0	3·1	81	363·0	100·0	7·3	221

/Appendix II (continued)

Notes for Table I

(1) Adjusted income is defined in the Appendix. Because the income estimate for 1968 is almost certainly biased downward, all the figures in the 'per cent of adjusted income' column for 1968 are overstated to an unknown degree.

(2) Household size and income are positively correlated. Thus $ per capita, which was not calculated, would at a minimum be less strongly correlated with income than in $ per household.

(3) 'Public consumption I' and 'public investment I' represent allocable items only. 'Public consumption II' and 'public investment II' also include unallocable overheads, arbitrarily divided on an equal per capita basis.

(4) 'Net current balance' consists of public consumption II plus transfer payments, less the sum of taxes, payments for services, and transfer receipts. The last two items, both small, are not shown separately here.

TABLE 2

Snodgrass MAJOR FINDINGS BY RACES

	1958				1968			
	$ million	Per cent of total	Per cent of adjusted income	$ per capita	$ million	Per cent of total	Per cent of adjusted income	$ per capita
Taxes								
Malays	177·5	30·7	17·0	56	411·8	28·2	24·9	94
Non-Malays	400·0	69·3	19·5	128	1,048·5	71·8	34·0	251
Total	577·5	100·0	18·6	92	1,460·3	100·0	30·8	171
Public consumption I								
Malays	73·7	40·3	7·0	23	178·7	48·1	10·8	41
Non-Malays	109·1	59·7	5·3	35	192·5	51·9	6·2	46
Total	182·9	100·0	5·9	29	371·2	100·0	7·8	44
Public consumption II								
Malays	251·8	46·6	24·1	80	501·7	49·3	30·4	114
Non-Malays	288·6	53·4	14·1	92	515·6	50·7	16·7	123
Total	540·4	100·0	17·4	86	1,017·3	100·0	21·5	119
Transfer payments								
Malays	124·4	48·0	11·9	39	278·6	47·8	16·9	63
Non-Malays	135·0	52·0	6·6	43	303·8	52·2	9·8	73
Total	259·3	100·0	8·4	41	582·3	100·0	12·3	68
Net current balance								
Malays	+167[1]	–	+16·0	+53	+300·3		+18·2	+68
Non-Malays	−23·7	–	−1·2	−8	−328·9		−10·7	−79
Total	+143·4	–	+4·6	+23	−28·6		−0·6	−3
Public investment I								
Malays	36·2	39·2	3·5	11	211·2	61·3	12·8	48
Non-Malays	56·1	60·8	2·7	18	133·4	38·7	4·3	32
Total	92·3	100·0	3·0	15	344·6	100·0	7·3	40
Public investment II								
Malays	42·6	40·5	4·1	14	220·4	60·7	13·3	50
Non-Malays	62·7	59·5	3·1	20	142·7	39·3	4·6	34
Total	105·3	100·0	3·4	17	363·0	100·0	7·7	43

Source: D.R. Snodgrass (1975), op. cit., p. 277-8.

/Appendix III

Appendix III

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE FOR AGRICULTURAL PROGRAMMES, 1971-80

($ million)

	Revised SMP allocation, 1971-75	Estimated expenditure, 1971-75	%	TMP allocation, 1976-80			
				Peninsular Malaysia	Sabah	Sarawak	Total
Agriculture	202.49	212.23	104.8	345.22	49.02	102.50	496.74
Pineapple replanting	4.76	3.93	82.6	21.47	—	—	21.47
Coconut replanting	23.63	26.79	79.7	62.30	—	—	62.30
Diversification of crops	24.48	23.55	96.2	134.77	49.02	102.50	286.29
Extension and services	139.62	157.96	113.1	126.68	—	—	126.68
Rubber replanting	100.16	153.41	83.3	630.90	27.60	16.44	674.94
Land development	1,252.73	1,139.18	90.9	1,603.69	170.00	236.00	2,009.69
FELDA	679.27	645.14	95.0	985.02	—	—	985.02
FELCRA	51.69	49.43	95.6	77.50	—	8.00	85.50
Youth land schemes	18.00	17.83	99.1	50.78	—	—	50.78
Public estates	65.96	61.28	92.9	(47.00)	—	—	(47.00)[4]
Land Development Boards	188.48	164.83	87.5	99.12	170.00	228.00	497.12
Jengka Triangle	133.14	107.78	81.0	96.20	—	—	96.20
Pahang Tenggara Development Authority	68.75	47.25	68.7	142.15	—	—	142.15
Johor Tenggara Development Authority	40.33	40.10	99.4	89.43	—	—	89.43
Trengganu Tengah Development Authority	7.11	5.54	77.9	63.49	—	—	63.49

Source: Third Malaysia Plan, op. cit., p. 307.

/Appendix IV.

Appendix IV

REDISTRIBUTIVE ACTIVITY BY MAJOR PUBLIC ORGANIZATIONS, AND APPROVED FUNDING FROM FEDERAL BUDGET 1974
(includes Borneo states)

Federal budget allocation, 1974 ($ million):	79	50	25	175	30	19	1039	353	6191	19694
Percentage of GNP	.4	.2	.1	.8	.	.1	5.3	1.2	31.4	100
	MARA 1/	Urban Devel. Auth.	FERNAS, Nat'l Corp.	Fed. Land Devel. Auth.	State Econ. Devel. Corp.	National Padi and Rice Auth.	Ministry Education 2/	Ministry Health	Federal Expenditure	GNP
1. Develop and operate enterprises										
palm oil mills	x			x						
rubber factories	x			x						
rice storage						x				
trading companies	x				x					
construction companies			x							
tire retreading factory	x									
rice mills and dryers	x	x				x				
financial intermediaries	x									
others	x		x		x					
2. Purchase shares to control enterprises										
sole proprietors	x	x	x		x					1
joint ventures	x	x	x		x					62
3. Purchase shares with control (eventual resale to bumiputras)	x	x	x		x					1
4. Provide subsidized inputs to enterprises										
loans	x	x	x		x					
low rents	x	x			x					
fertilizer below cost					x					
land, cleared and planted				x						
land alone					x					
other inputs	x									
5. Education/Training										
short-term technical assistance	x									
management training	x		x							
vocational courses	x						x			
basic education	x									
6. Medical services								x		

1/ Excludes MARA Institute of Technology

2/ Includes MARA Institute of Technology

Sources: Expenditure Budget, 1975, passim, Treasury Economic Report 1975-76 pp. iv and xxxd.